BOX INC
Form 10-Q
December 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-36805

Box, Inc.

(Exact name of registrant as specified in its charter)

Delaware	20-2714444
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

900 Jefferson Ave.

Redwood City, California 94063

(Address of principal executive offices and Zip Code)

(877) 729-4269

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Small reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of November 30, 2017, the number of shares of the registrant's Class A common stock outstanding was 120,976,520 and the number of shares of the registrant's Class B common stock outstanding was 15,165,697.

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our ability to maintain an adequate rate of revenue and billings growth and our expectations regarding such growth;
- our business plan and our ability to effectively manage our growth;
- our ability to achieve profitability and positive cash flow;
- our ability to achieve our long-term margin objectives;
- our expectations regarding our revenues mix;
- costs associated with defending intellectual property infringement and other claims;
- our ability to attract and retain end-customers;
- our ability to further penetrate our existing customer base;
- our expectations regarding our retention rate;
- our ability to displace existing products in established markets;
- our ability to expand our leadership position as a cloud content platform;
- our ability to timely and effectively scale and adapt our existing technology;
- our ability to innovate new products and bring them to market in a timely manner;
- our plans to further invest in our business, including investment in research and development, sales and marketing, our datacenter infrastructure and our professional services organization, and our ability to effectively manage such investments;
- our ability to expand internationally;
- the effects of increased competition in our market and our ability to compete effectively;
- the effects of seasonal trends on our operating results;
- our belief regarding the sufficiency of our cash, cash equivalents and our credit facilities to meet our working capital and capital expenditure needs for the next 12 months;
- our expectations concerning relationships with third parties;
- our ability to attract and retain qualified employees and key personnel;
- our ability to realize the anticipated benefits of our partnerships with third parties;
- our ability to maintain, protect and enhance our brand and intellectual property; and
- future acquisitions of or investments in complementary companies, products, services or technologies and our ability to successfully integrate such companies or assets.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations, except as required by law.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the SEC as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

BOX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	October 31, 2017 (unaudited)	January 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$172,857	$177,391
Accounts receivable, net of allowance of $1,909 and $3,346	95,868	120,113
Prepaid expenses and other current assets	13,915	10,826
Deferred commissions	13,331	13,771
Total current assets	295,971	322,101
Property and equipment, net	118,278	117,176
Intangible assets, net	63	543
Goodwill	16,293	16,293
Restricted cash	26,543	26,781
Other long-term assets	9,621	10,780
Total assets	$466,769	$493,674
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$11,334	$6,658
Accrued compensation and benefits	22,098	30,415
Accrued expenses and other current liabilities	18,074	17,713
Capital lease obligations	18,071	13,748
Deferred revenue	225,194	228,656
Deferred rent	2,147	751
Total current liabilities	296,918	297,941
Debt, non-current	40,000	40,000
Capital lease obligations, non-current	26,667	21,697
Deferred revenue, non-current	27,812	13,328
Deferred rent, non-current	45,943	44,207
Other long-term liabilities	3,129	1,769
Total liabilities	440,469	418,942
Commitments and contingencies (Note 6)		

Stockholders' equity:		
Preferred stock, par value $0.0001 per share; 100,000 shares authorized, no shares issued and outstanding as of October 31 (unaudited) and January 31, 2017	—	—
Class A common stock, par value $0.0001 per share; 1,000,000 shares authorized; 118,867 shares (unaudited) and 67,831 shares issued and outstanding as of October 31 and January 31, 2017, respectively	8	7
Class B common stock, par value $0.0001 per share; 200,000 shares authorized; 17,223 shares (unaudited) and 62,780 shares issued and outstanding as of October 31 and January 31, 2017, respectively	5	6
Additional paid-in capital	1,033,917	960,144
Treasury stock	(1,177)	(1,177)
Accumulated other comprehensive loss	(30)	(120)
Accumulated deficit	(1,006,423)	(884,128)
Total stockholders' equity	26,300	74,732
Total liabilities and stockholders' equity	$466,769	$493,674

See notes to condensed consolidated financial statements.

BOX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Revenue	$129,304	$102,811	$369,467	$288,679
Cost of revenue	34,471	27,115	99,972	82,576
Gross profit	94,833	75,696	269,495	206,103
Operating expenses:				
Research and development	34,812	29,652	102,388	84,824
Sales and marketing	81,670	66,796	225,604	186,454
General and administrative	20,910	16,999	63,037	49,087
Total operating expenses	137,392	113,447	391,029	320,365
Loss from operations	(42,559)	(37,751)	(121,534)	(114,262)
Interest expense, net	(287)	(222)	(802)	(587)
Other income (expense), net	277	(22)	560	609
Loss before provision for income taxes	(42,569)	(37,995)	(121,776)	(114,240)
Provision for income taxes	355	238	519	670
Net loss	$(42,924)	$(38,233)	$(122,295)	$(114,910)
Net loss per common share, basic and diluted	$(0.32)	$(0.30)	$(0.92)	$(0.91)
Weighted-average shares used to compute net loss per share, basic and diluted	134,636	128,275	133,044	126,712

See notes to condensed consolidated financial statements.

BOX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Net loss	$(42,924)	$(38,233)	$(122,295)	$(114,910)
Other comprehensive (loss) income*:				
Changes in foreign currency translation adjustment	(88)	(12)	90	53
Net change in unrealized gain on available-for-sale investments	—	—	—	3
Other comprehensive (loss) income*:	(88)	(12)	90	56
Comprehensive loss	$(43,012)	$(38,245)	$(122,205)	$(114,854)

*Tax effect was not material

See notes to condensed consolidated financial statements.

BOX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended October 31, 2017	Three Months Ended October 31, 2016	Nine Months Ended October 31, 2017	Nine Months Ended October 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(42,924)	$(38,233)	$(122,295)	$(114,910)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	9,913	8,710	29,250	31,515
Stock-based compensation expense	25,523	19,917	72,536	55,070
Amortization of deferred commissions	5,393	4,251	15,751	13,627
Other	(124)	13	(83)	96
Changes in operating assets and liabilities:				
Accounts receivable, net	12,023	(10,825)	24,245	13,547
Deferred commissions	(4,616)	(3,667)	(13,235)	(10,073)
Prepaid expenses, restricted cash and other assets	2,746	1,670	(2,959)	4,107
Accounts payable	(2,592)	2,353	4,469	2,069
Accrued expenses and other liabilities	(4,828)	(1,036)	(8,721)	(20,250)
Deferred rent	1,413	424	3,132	3,078
Deferred revenue	12,167	9,594	11,022	6,185
Net cash provided by (used in) operating activities	14,094	(6,829)	13,112	(15,939)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Sales of marketable securities	—	—	—	240
Maturities of marketable securities	—	—	—	7,057
Purchases of property and equipment	(3,003)	(1,892)	(4,800)	(13,639)
Proceeds from sale of property and equipment	2	8	31	84
Net cash used in investing activities	(3,001)	(1,884)	(4,769)	(6,258)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payment of borrowing costs	—	—	—	(93)
Proceeds from exercise of stock options, net of repurchases of early exercised stock options	4,002	3,388	9,415	7,603
Proceeds from issuances of common stock under employee stock purchase plan	8,640	6,710	17,521	15,726
Employee payroll taxes paid related to net share settlement of restricted stock units	(11,284)	(4,726)	(26,219)	(13,594)
Acquisition related contingent consideration	—	—	(991)	—

Payments of capital lease obligations	(4,781)	(2,178)	(12,693)	(5,439)
Net cash (used in) provided by financing activities	(3,423)	3,194	(12,967)	4,203
Effect of exchange rate changes on cash and cash equivalents	(88)	(12)	90	53
Net increase (decrease) in cash and cash equivalents	7,582	(5,531)	(4,534)	(17,941)
Cash and cash equivalents, beginning of period	165,275	173,331	177,391	185,741
Cash and cash equivalents, end of period	$172,857	$167,800	$172,857	$167,800
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest, net of amounts capitalized	$527	$50	$1,416	$838
Cash paid for income taxes, net of tax refunds	425	95	1,158	211
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Change in accrued equipment purchases	$1,714	$3,647	$2,604	$(11,377)
Purchases of property and equipment under capital lease	6,194	8,390	21,875	18,300
Change in unpaid tax related to capital lease	160	522	595	952
Vesting of early exercised stock options and restricted stock units	—	—	—	11
Issuance of common stock in connection with acquisitions and purchases of intangible assets	—	1,011	—	1,011
Timing of settlement of stock options exercise	520	—	520	—

See notes to condensed consolidated financial statements.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Description of Business and Basis of Presentation

Description of Business

We were incorporated in the state of Washington in April 2005, and were reincorporated in the state of Delaware in March 2008. We changed our name from Box.Net, Inc. to Box, Inc. in November 2011. Box provides a leading cloud content management platform that enables organizations of all sizes to securely manage cloud content while allowing easy, secure access and sharing of this content from anywhere, on any device.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of October 31, 2017 and the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive loss and the condensed consolidated statements of cash flows for the three and nine months ended October 31, 2017 and 2016, respectively, are unaudited. The condensed consolidated balance sheet data as of January 31, 2017 was derived from the audited consolidated financial statements that are included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2017 (the "Form 10-K"), which was filed with the Securities and Exchange Commission (the "SEC") on March 24, 2017. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our Form 10-K. Other than items discussed under Recently Adopted Accounting Pronouncements, there have been no other material changes to our critical accounting policies and estimates during the nine months ended October 31, 2017 from those disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K.

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of our management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in the Form 10-K, and include all adjustments necessary for the fair presentation of our balance sheet as of October 31, 2017, and our results of operations, including our comprehensive loss, and our cash flows for the three and nine months ended October 31, 2017 and 2016. All adjustments are of a normal recurring nature. The results for the three and nine months ended October 31, 2017 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2018.

Certain prior year balances have been reclassified to conform to the current year presentation. Such reclassifications did not affect total revenues, operating income or net income.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make, on an ongoing basis, estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ from these estimates. Such estimates include, but are not limited to, the determination of the allowance for accounts receivable, fair value of acquired intangible assets and goodwill, useful lives of acquired intangible assets and property and equipment, best estimate of selling price included in multiple-deliverable revenue arrangements, fair values of stock-based awards, legal contingencies, and the provision for income taxes, including related reserves, among others. Management bases its estimates on historical experience and on various other assumptions which management believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Certain Risks and Concentrations

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash and accounts receivable. Although we deposit our cash with multiple financial institutions, our deposits, at times, may exceed federally insured limits.

We sell to a broad range of customers, including resellers. Our revenue is derived substantially from the United States across a multitude of industries. Accounts receivable are derived from the delivery of our services to customers primarily located in the United States. We accept and settle our accounts receivable using credit cards, electronic payments and checks. A majority of our lower dollar value invoices are settled by credit card on or near the date of the invoice. We do not require collateral from customers to secure

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

accounts receivable. We maintain an allowance for accounts receivable based upon the expected collectability, which takes into consideration specific customer creditworthiness and current economic trends. We believe collections of our accounts receivable are reasonably assured based on the size, industry diversification, financial condition and past transaction history of our customers. As of October 31, 2017, one customer, which was a reseller, accounted for more than 10% of total accounts receivable. As of January 31, 2017, two customers, which were both resellers, accounted for more than 10% of total accounts receivable. No single customer, including resellers, represented over 10% of revenue for the three and nine months ended October 31, 2017 and 2016.

We serve our customers and users from datacenter facilities operated by third parties. In order to reduce the risk of down time of our enterprise cloud content services, we have established datacenters and third-party cloud computing and hosting providers in various locations in the United States and abroad. We have internal procedures to restore services in the event of disaster at any one of our current datacenter facilities. Even with these procedures for disaster recovery in place, our cloud services could be significantly interrupted during the implementation of the procedures to restore services.

Geographic Locations

For the three and nine months ended October 31, 2017, revenue attributable to customers in the United States and customers outside the United States was 79% and 21%, respectively. For the three and nine months ended October 31, 2016, revenue attributable to customers in the United States and customers outside the United States was 83% and 17%, respectively. No other country outside of the United States comprised 10% or greater of our revenue for any of the periods presented.

Substantially all of our net assets are located in the United States. As of October 31, 2017 and January 31, 2017, property and equipment located in the United States was 98.7% and 99.7%, respectively.

Recently Issued Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (“ASU”) 2016-18, Statement of Cash Flows: Restricted Cash. ASU 2016-18 requires entities to show the changes in cash, cash equivalents, and restricted cash in the statement of cash flows. Entities will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. As of October 31, 2017 and January 31, 2017, we had $26.5 million and $26.8 million in restricted cash, respectively. Restricted cash consists of certificates of deposits related to our leases. The new standard is effective for us beginning February 1, 2018, with early adoption permitted. The new standard should be applied using a retrospective transition method to each period presented. We expect the adoption of ASU 2016-18 will have a material impact on our consolidated statement of cash flows and related disclosures due to the release of $26.0 million in restricted cash disclosed under Note 12.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments- Credit Losses. ASU 2016-13 replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For trade receivables, loans, and other financial instruments, we will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. The new standard is effective for us beginning February 1, 2020 with early adoption permitted. Application of the amendments is through a cumulative-effect adjustment to retained earnings as of the effective date. We are currently evaluating the impact of the provisions of this new standard on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires lessees to put most leases on their balance sheet while recognizing expense in a manner similar to existing accounting. The new accounting guidance is effective for us beginning February 1, 2019 with early adoption permitted. We will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. We are currently evaluating the impact of the provisions of this new standard on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 regarding ASC Topic 606, Revenue from Contracts with Customers. The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also provides guidance on the recognition of sales commission costs related to obtaining customer contracts. In addition, the FASB issued subsequent ASUs, which serve to clarify certain aspects of ASU 2014-09. The standard will be effective for us beginning February 1, 2018; we have elected not to adopt the standard earlier. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). We currently anticipate adopting the standard using the modified retrospective method,

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

which will result in a cumulative effect adjustment. We have established a cross-functional team to implement the new standard with respect to the recognition of revenue from contracts with customers. We have identified, and are in the process of implementing, appropriate changes to our business processes, systems and controls to support recognition and disclosure under the new standard.

Based on our ongoing evaluation, we expect this ASU will impact our capitalization and amortization of sales commissions, the timing of our revenue recognition for certain sales contracts, and their related disclosures. We expect a change to the period over which we amortize sales commissions in order to align them to an expected benefit period of five years. We also expect a change to the scope of capitalized sales commissions based on the definition of incremental costs of obtaining a contract. While we have not finalized the assessment on the new commissions policy, we believe the new commissions policy will have a material impact on our consolidated financial statements, resulting in lower commissions expense over at least the first twelve-month period post adoption. In addition, we expect a change in the timing of revenue recognition for certain sales contracts due primarily to the removal of the current limitation on contingent revenue. We have not yet determined whether the potential impact on revenue will be material to our consolidated financial statements and related disclosures as future sales contracts up to the date of our adoption still may impact our assessment. We continue to assess the potential impact of this ASU on our consolidated financial statements and related disclosures and, as such, our preliminary conclusions remain subject to change.

Recently Adopted Accounting Pronouncements

In January 2017, FASB issued ASU 2017-04, Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. Under current guidance, Step 2 of the goodwill impairment test requires entities to calculate the implied fair value of goodwill in the same manner as the amount of goodwill recognized in a business combination by assigning the fair value of a reporting unit to all of the assets and liabilities of the reporting unit. The carrying value in excess of the implied fair value is recognized as goodwill impairment. Under the new standard, goodwill impairment is recognized based on Step 1 of the current guidance, which calculates the carrying value in excess of the reporting unit’s fair value. The new standard is effective for us beginning February 1, 2020, with early adoption permitted.

We elected to early adopt ASU 2107-04 during the second quarter of fiscal year 2018. The adoption of this ASU had no impact on our condensed consolidated financial statements. We expect that adoption of this ASU will simplify the evaluation and recording of goodwill impairment charges, if any.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payment. ASU 2016-15 provides guidance on the classification of eight cash flow issues in order to reduce diversity in practice. As required by ASU 2016-15, contingent consideration payments made soon after a business combination should be classified as cash outflows for investing activities. Payments made thereafter should be classified as cash outflows for financing activities up to the amount of the original contingent consideration liability. Payments made in excess of the amount of the original contingent consideration liability should be classified as cash outflows for operating activities. The new standard is effective for us beginning February 1, 2018 with early adoption permitted.

We elected to early adopt ASU 2016-15 during the second quarter of fiscal year 2018. The new standard requires application using a retrospective transition method. We have evaluated the impact on a quantitative and qualitative basis and concluded it was not material to any of prior periods presented.

In April 2016, the FASB issued ASU 2016-09, Compensation- Stock Compensation: Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 changes the accounting for certain aspects of share-based payments to employees. The new guidance requires excess tax benefits and tax deficiencies to be recorded in the income statement. In addition, cash flows related to excess tax benefits will be presented as an operating activity on the cash flow statement. The standard also allows entities to repurchase more of an employee’s shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made on an employee’s behalf for withheld shares should be presented as a financing activity on the cash flow statement, and provides an accounting policy election to account for forfeitures as they occur.

We adopted ASU 2016-09 during the first quarter of fiscal year 2018. As required by the standard, excess tax benefits recognized on stock-based compensation expense were prospectively reflected in our condensed consolidated statements of income as a component of the provision for income taxes rather than on the condensed consolidated balance sheet as a paid-in capital. Included in our net operating loss and research and development tax credit carryforwards are approximately $25.2 million of excess tax benefits from employee stock option exercises, for which we have not realized a deferred tax asset since it is fully offset by a valuation allowance, resulting in no impact to our condensed consolidated financial statements including any cumulative effect to accumulated deficit from previously unrecognized excess tax benefits. Our policy has been to classify cash flows related to excess tax benefits as

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

part of operating activities and cash payments made on employee's behalf for withheld shares as part of financing activities, and thus, the adoption of this standard had no effect on our condensed consolidated statements of cash flows. Further, we did not elect an accounting policy change to record forfeitures as they occur and thus will continue to estimate the number of forfeitures expected to occur. Other amendments in the guidance did not impact our condensed consolidated financial statements.

Note 2. Fair Value Measurements

We define fair value as the exchange price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We measure our financial assets and liabilities at fair value at each reporting period using a fair value hierarchy which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

- Level 1—Observable inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs are quoted prices for similar assets and liabilities in active markets or inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These inputs are based on our own assumptions used to measure assets and liabilities at fair value and require significant management judgment or estimation.

We measure restricted cash at fair value on a recurring basis. We classify this asset within Level 1 or Level 2 because they are valued using either quoted market prices for identical assets or inputs other than quoted prices that are directly or indirectly observable in the market, including readily-available pricing sources for the identical underlying security which may not be actively traded. We had restricted cash in the form of certificates of deposits of $26.5 million and $26.8 million as of October 31, 2017 and January 31, 2017, respectively, classified within Level 2.

On November 29, 2017, in connection with our entry into a new secured credit agreement with Wells Fargo Bank, National Association (November 2017 Facility), we utilized an available sublimit for the issuance of $26.0 million in letters of credit and released the restrictions on the corresponding certificates of deposits. Accordingly, we released $26.0 million from restricted cash to cash and cash equivalents. Refer to Note 12 for additional details.

Note 3. Balance Sheet Components

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	October 31, 2017	January 31, 2017
Prepaid expenses	$9,569	$9,256
Other current assets	4,346	1,570
Total prepaid expenses and other current assets	$13,915	$10,826

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

	October 31, 2017	January 31, 2017
Servers	$160,067	$143,219
Leasehold improvements	64,507	64,379
Computer hardware and software	11,996	11,373
Furniture and fixtures	13,073	12,824
Construction in progress	13,234	5,882
Total property and equipment	262,877	237,677
Less: accumulated depreciation	(144,599)	(120,501)
Total property and equipment, net	$118,278	$117,176

As of October 31, 2017, the gross carrying amount of property and equipment included $65.3 million of servers and $6.8 million of construction in progress acquired under capital leases, and the accumulated depreciation of property and equipment acquired under these capital leases was $23.6 million. As of January 31, 2017, the gross carrying amount of property and equipment included $43.2 million of servers and related equipment and $5.6 million of construction in progress acquired under capital leases, and the accumulated depreciation of property and equipment acquired under these capital leases was $10.4 million.

Depreciation expense related to property and equipment was $9.9 million and $8.2 million for the three months ended October 31, 2017 and 2016, respectively, and $28.8 million and $28.6 million for the nine months ended October 31, 2017 and 2016, respectively. Included in these amounts was depreciation expense for servers acquired under capital leases in the amount of $4.9 million and $2.0 million for the three months ended October 31, 2017 and 2016, respectively, and $13.3 million and $5.0 million for the nine months ended October 31, 2017 and 2016, respectively. Construction in progress primarily consists of servers, networking equipment and storage infrastructure being provisioned in our datacenter facilities as well as leasehold improvements due to facilities investments. In addition, the amounts of interest capitalized to property and equipment were not material for the three and nine months ended October 31, 2017 and 2016.

Note 4. Acquisitions

Wagon Analytics, Inc.

On August 30, 2016, we entered into an agreement to license certain technology and hire certain employees from Wagon Analytics, Inc., a privately-held data analysis company, for a total purchase price of $2.0 million. This agreement has been accounted for as a business combination. The entire purchase price was allocated to goodwill. Goodwill is attributable to future growth and potential enhancement opportunities for our analytics platform. Goodwill is deductible for U.S. income tax purposes. Transaction costs related to this business combination were not material.

Results of operations for this business combination have been included in our consolidated statements of operations since the acquisition date and were not material. Pro forma results of operations for this business combination have not been presented because they were also not material to the consolidated results of operations.

Note 5. Goodwill and Intangible Assets

There was no goodwill activity for the three and nine months ended October 31, 2017.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Intangible assets consisted of the following (in thousands):

	Weighted Average Useful Life (1)		Gross Value	Accumulated Amortization	Net Carrying Value
October 31, 2017					
Developed technology	2.5	years	$14,273	$ (14,273)	$ —
Trade name and other	6.9	years	1,201	(1,138)	63
Intangibles, net			$15,474	$ (15,411)	$ 63
January 31, 2017					
Developed technology	2.5	years	$14,273	$ (13,908)	$ 365
Trade name and other	6.9	years	1,201	(1,023)	178
Intangibles, net			$15,474	$ (14,931)	$ 543

(1) From the date of acquisition

Intangible amortization expense was not material for the three months ended October 31, 2017 and was $0.5 million for the three months ended October 31, 2016. For the nine months ended October 31, 2017 and 2016, intangible amortization expense was $0.5 million and $2.9 million, respectively. Amortization of acquired technology is included in cost of revenue and amortization for trade names is included in general and administrative expenses in the consolidated statements of operations. As of October 31, 2017, expected amortization expense for intangible assets was not material.

Note 6. Commitments and Contingencies

Letters of Credit

As of October 31, 2017 and January 31, 2017, we had letters of credit in the aggregate amount of $26.5 million and $26.8 million, respectively, in connection with our operating and capital leases. Letters of credit in connection with our facility leases are collateralized by certificates of deposits. Refer to Note 2 for additional details.

On November 29, 2017, in connection with our entry into the November 2017 Facility, we utilized an available sublimit for the issuance of $26.0 million in letters of credit and released the restrictions on the corresponding certificates of deposits. Refer to Note 12 for additional details.

Leases

We have entered into various non-cancellable operating lease agreements for certain of our offices and datacenters with lease periods expiring primarily between fiscal years 2018 and 2029. Certain of these arrangements have free or escalating rent payment provisions and optional renewal clauses. We are also committed to pay a portion of the actual operating expenses under certain of these lease agreements. These operating expenses are included in the table below.

We also entered into various capital lease arrangements to obtain servers for our operations. These agreements are typically for three to four years. The leases are secured by the underlying leased servers.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

As of October 31, 2017, future minimum lease payments under non-cancellable capital and operating leases are as follows (in thousands):

Years ending January 31:	Capital Leases	Operating Leases, net of Sublease Income
Remainder of 2018	$5,082	$ 6,593
2019	17,923	$ 28,061
2020	12,415	$ 32,453
2021	8,932	$ 33,447
2022	1,947	$ 30,793
Thereafter	—	$ 161,669
Total minimum lease payments	$46,299	$ 293,016
Less: amount representing interest	(1,561)	
Present value of minimum lease payments	$44,738	

We sublease certain floors of our headquarters and one floor of our office in San Francisco. These subleases have terms ranging from 19 to 49 months that will expire between fiscal 2018 and 2021. Non-cancellable sublease proceeds for the years ending January 31, 2018, 2019, 2020 and 2021 of $1.8 million, $5.8 million, $1.9 million and $1.8 million, respectively, are included in the table above.

We establish assets and liabilities for the present value of estimated future costs to return certain of our leased facilities to their original condition. Such assets are depreciated over the lease period into operating expense, and the recorded liabilities are accreted to the future value of the estimated restoration costs. We did not have material asset retirement obligations as of October 31, 2017 and January 31, 2017. In addition, sufficient information did not exist as of October 31, 2017 to reasonably estimate the fair value of asset retirement obligations for the leases on our Tokyo and London offices.

We recognize rent expense under our operating leases on a straight-line basis. Rent expense totaled $8.1 million and $4.7 million, net of sublease income of $1.9 million and $1.8 million for the three months ended October 31, 2017 and 2016, respectively, and rent expense totaled $20.3 million and $13.3 million, net of sublease income of $5.6 million and $5.0 million for the nine months ended October 31, 2017 and 2016, respectively.

Purchase Obligations

As of October 31, 2017, future payments under non-cancellable contractual purchases, which relate primarily to datacenter operations and sales and marketing activities, are as follows (in thousands):

Years ending January 31:	
Remainder of 2018	$5,046
2019	25,164
2020	22,708
	$52,918

Legal Matters

In June 2013, Open Text S.A. (Open Text) filed a lawsuit against us in the U.S. District Court, Eastern District of Virginia, alleging that our core cloud software and Box Edit application infringed 12 patents of Open Text. This case was subsequently transferred to the U.S. District Court for the Northern District of California and, in February 2015, went to trial. In February 2015, the jury returned a verdict in which it awarded damages in favor of Open Text in a lump sum and fully paid-up royalty in the amount of $4.9 million. Both parties appealed certain aspects of the trial. While we continued to defend the lawsuit vigorously and continued to believe we had valid defense to Open Text's claims, we considered the issuance of the verdict a recognized subsequent event that provided additional evidence about conditions which existed as of January 31, 2015. Accordingly, as of January 31, 2015, we accrued $4.9 million in relation to the jury award and recorded an expense in the amount of $3.9 million for the year ended January 31, 2015,

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

in relation to the portion of the jury award attributable to prior periods. The portion of the jury award attributable to future periods was recorded as an asset as of January 31, 2015. This asset was amortized over an estimated useful life of 14 months, and the amortization expense was $0.9 million for the year ended January 31, 2016. In addition, we deemed Open Text’s claim for interest on the jury award amount to be probable and estimable for the first time in July 2015. As such, we accrued additional expenses in the aggregate amount of $0.7 million during the year ended January 31, 2016, in relation to the interest on the jury award amount.

On March 31, 2016, we entered into a Confidential Settlement and Release Agreement with Open Text (the “Settlement Agreement”), which fully settled the lawsuit and resulted in a full dismissal of the case against the Company. In connection with such settlement, we paid $3.75 million in total to Open Text, and our obligation to pay the jury award amount of approximately $4.9 million and all pre- and post-judgment interest was terminated. The parties agreed to drop all appeals pending in connection with the litigation and each agreed to certain standard mutual releases related to the subject matter of the suit. We recorded the settlement payment of $3.75 million, reversed previous related accruals and interest of $5.6 million, and recorded $0.1 million in recurring amortization for the asset, resulting in net income of $1.7 million in our condensed consolidated statement of operations for the three months ended April 30, 2016.

In addition to the litigation discussed above, from time to time, we are a party to litigation and subject to claims that arise in the ordinary course of business. We investigate these claims as they arise, and accrue estimates for resolution of legal and other contingencies when losses are probable and estimable. Although the results of litigation and claims cannot be predicted with certainty, we believe there was not at least a reasonable possibility that we had incurred a material loss with respect to such loss contingencies as of October 31, 2017.

Indemnification

We include service level commitments to our customers warranting certain levels of uptime reliability and performance and permitting those customers to receive credits in the event that we fail to meet those levels. In addition, our customer contracts often include (i) specific obligations that we maintain the availability of the customer’s data through our service and that we secure customer content against unauthorized access or loss, and (ii) indemnity provisions whereby we indemnify our customers for third-party claims asserted against them that result from our failure to maintain the availability of their content or securing the same from unauthorized access or loss. To date, we have not incurred any material costs as a result of such commitments.

Our arrangements generally include certain provisions for indemnifying customers against liabilities if our products or services infringe a third party’s intellectual property rights. It is not possible to determine the maximum potential amount under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. To date, we have not incurred any material costs as a result of such obligations and have not accrued any material liabilities related to such obligations in the consolidated financial statements. In addition, we indemnify our officers, directors and certain key employees while they are serving in good faith in their respective capacities. To date, there have been no claims under any indemnification provisions.

Note 7. Debt

Line of Credit

In December 2015, we entered into a revolving credit facility (December 2015 Facility) with a lender in the amount of up to $40.0 million maturing in December 2017. The December 2015 Facility was denominated in U.S. dollars and, depending on certain conditions, each borrowing was subject to a floating interest rate equal to either the prime rate plus a spread of 0.25% to 2.75% or a reserve adjusted LIBOR rate (based on one, three or six-month interest periods) plus a spread of 1.25% to 3.75%. Although no minimum deposit was required for the December 2015 Facility, we were eligible for the lowest interest rate if we maintained at least $40 million in deposits with the lender. In addition, there was an annual fee of 0.2% on the total commitment amount. We drew $40.0 million at 1.82% (six month LIBOR plus 1.25%). Borrowings under the December 2015 Facility were collateralized by substantially all of our assets in the United States. The December 2015 Facility also contained various covenants, including covenants related to the delivery of financial and other information, the maintenance of quarterly financial covenants, as well as customary limitations on dispositions, mergers or consolidations and other corporate activities. As of October 31, 2017, we were in compliance with all financial covenants. In February 2017, we amended the December 2015 Facility to extend the maturity date to December 2018. Interest expense, net of capitalized interest costs, for the periods presented is not material.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

On November 27, 2017, we terminated the December 2015 Facility and entered into the November 2017 Facility. Refer to Note 12 for additional details.

Note 8. Stock-Based Compensation

2015 Equity Incentive Plan

In January 2015, our board of directors adopted the 2015 Equity Incentive Plan (2015 Plan), which became effective prior to the completion of our initial public offering (IPO). A total of 12,200,000 shares of Class A common stock was initially reserved for issuance pursuant to future awards under the 2015 Plan. On the first day of each fiscal year, shares available for issuance are increased based on the provisions of the 2015 Plan. Any shares subject to outstanding awards under our 2006 Equity Incentive Plan (2006 Plan) or 2011 Equity Incentive Plan (2011 Plan) that are cancelled or repurchased subsequent to the 2015 Plan's effective date are returned to the pool of shares reserved for issuance under the 2015 Plan. Awards granted under the 2015 Plan may be (i) incentive stock options, (ii) nonstatutory stock options, (iii) restricted stock units, (iv) restricted stock awards or (v) stock appreciation rights, as determined by our board of directors at the time of grant. Twenty-five percent of each grant of stock options and restricted stock units generally vest one year from the vesting commencement date and continue to vest (a) in the case of options, 1/48th per month thereafter, and (b) in the case of restricted stock units, 1/16th per quarter thereafter. As of October 31, 2017, 16,633,551 shares were reserved for future issuance under the 2015 Plan.

2015 Employee Stock Purchase Plan

In January 2015, our board of directors adopted the 2015 Employee Stock Purchase Plan (2015 ESPP), which became effective prior to the completion of our IPO. A total of 2,500,000 shares of Class A common stock was initially reserved for issuance under the 2015 ESPP. On the first day of each fiscal year, shares available for issuance are increased based on the provisions of the 2015 ESPP. The 2015 ESPP allows eligible employees to purchase shares of our Class A common stock at a discount of up to 15% through payroll deductions of their eligible compensation, subject to any plan limitations. Except for the initial offering period, the 2015 ESPP provides for 24-month offering periods beginning March 16 and September 16 of each year, and each offering period consists of four six-month purchase periods.

On each purchase date, eligible employees may purchase our stock at a price per share equal to 85% of the lesser of (1) the fair market value of our stock on the offering date or (2) the fair market value of our stock on the purchase date. In the event the price is lower on the last day of any purchase price period, in addition to using that price as the basis for that purchase period, the offering period resets and the new lower price becomes the new offering price for a new 24 month offering period. As of October 31, 2017, 2,202,188 shares were reserved for future issuance under the 2015 ESPP.

Stock Options

The following table summarizes the stock option activity under the equity incentive plans and related information:

	Shares Subject to Options Outstanding		Weighted-Average	
	Shares	Weighted-Average Exercise Price	Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2017	12,318,800	$ 7.44	6.42	$ 119,606
Options granted	1,533,056	17.46		
Option exercised	(1,561,172)	6.36		
Options forfeited/cancelled	(852,990)	15.05		
Balance as of October 31, 2017	11,437,694	$ 8.37	5.99	$ 155,364
Vested and expected to vest as of October 31, 2017	11,330,158	$ 8.30	5.97	$ 154,675
Exercisable as of October 31, 2017	8,939,286	$ 6.36	5.30	$ 139,342

The aggregate intrinsic value of options vested and expected to vest and exercisable as of October 31, 2017 is calculated based on the difference between the exercise price and the current fair value of our common stock. The aggregate intrinsic value of exercised

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

options for the nine months ended October 31, 2017 and 2016 was $18.8 million and $21.5 million, respectively. The aggregate estimated fair value of stock options granted to employees that vested for the nine months ended October 31, 2017 and 2016 was $7.2 million and $12.7 million, respectively. The weighted-average grant date fair value of options granted to employees during the nine months ended October 31, 2017 and 2016 was $7.04 and $5.45 per share, respectively.

As of October 31, 2017, there was $15.1 million of unrecognized stock-based compensation expense related to outstanding stock options granted to employees that is expected to be recognized over a weighted-average period of 2.40 years.

In April 2017, the compensation committee of our board of directors approved and granted 475,000 performance-based stock options under the 2015 Plan to certain executive officers where vesting is subject to both the continued employment of the participant and the achievement of market-based performance goals established by the compensation committee. Subject to the achievement of the performance goals, 25% of the performance-based options vest one year from the vesting commencement date, and 1/48th continue to vest each month thereafter. The grant date fair value of these awards was determined using a Monte Carlo valuation model. As of October 31, 2017, these market-based performance goals were not met. During the nine months ended October 31, 2017, 250,000 performance-based stock options were forfeited in connection with a participant's resignation of employment.

Restricted Stock Units

The following table summarizes the restricted stock unit activity under the equity incentive plans and related information:

	Number of Restricted Stock Units Outstanding	Weighted-Average Grant Date Fair Value
Unvested balance - January 31, 2017	11,822,316	$ 14.67
Granted	6,820,260	17.74
Vested, net of shares withheld for employee payroll taxes	(2,338,184)	14.51
Forfeited/cancelled	(1,342,417)	15.12
Unvested balance - October 31, 2017	14,961,975	$ 16.22

As of October 31, 2017, there was $196.6 million of unrecognized stock-based compensation expense related to outstanding restricted stock units granted to employees that is expected to be recognized over a weighted-average period of 2.91 years.

2015 ESPP

As of October 31, 2017, there was $8.6 million of unrecognized stock-based compensation expense related to the 2015 ESPP that is expected to be recognized over the remaining term of the respective offering periods.

Stock-Based Compensation

The following table summarizes the components of stock-based compensation expense recognized in the consolidated statements of operations (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Cost of revenue	$2,814	$1,986	$7,945	$5,328
Research and development	9,705	7,730	28,419	21,602
Sales and marketing	8,208	6,744	23,882	18,390
General and administrative	4,796	3,457	12,290	9,750
Total stock-based compensation	$25,523	$19,917	$72,536	$55,070

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Determination of Fair Value

We estimated the fair value of employee stock options and 2015 ESPP purchase rights using a Black-Scholes option pricing model with the following assumptions:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Employee Stock Options				
Expected term (in years)	6.1	6.0	5.5 - 6.1	5.5 - 6.0
Risk-free interest rate	2.0%	1.3%- 1.4%	1.8%- 2.1%	1.3%- 1.5%
Volatility	39%	40%	38 %- 40%	40 %- 43%
Dividend yield	0%	0%	0%	0%
Employee Stock Purchase Plan				
Expected term (in years)	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Risk-free interest rate	1.2%- 1.4%	0.5%- 0.8%	0.9%- 1.4%	0.5%- 0.9%
Volatility	29 %- 40%	39 %- 51%	28 %- 43%	39 %- 60%
Dividend yield	0%	0%	0%	0%

The assumptions used in the Black-Scholes option pricing model were determined as follows:

Fair Value of Common Stock. Prior to our IPO in January 2015, our board of directors considered numerous objective and subjective factors to determine the fair value of our common stock at each grant date. These factors included, but were not limited to, (i) contemporaneous valuations of our common stock performed by unrelated third-party specialists; (ii) the prices for our redeemable convertible preferred stock sold to outside investors; (iii) the rights, preferences and privileges of our redeemable convertible preferred stock relative to our common stock; (iv) the lack of marketability of our common stock; (v) developments in the business; and (vi) the likelihood of achieving a liquidity event, such as an IPO or a merger or acquisition, given prevailing market conditions.

Subsequent to the completion of our IPO, we use the market closing price for our Class A common stock as reported on the New York Stock Exchange to determine the fair value of our common stock at each grant date.

Expected Term. The expected term represents the period that our share-based awards are expected to be outstanding. The expected term assumptions were determined based on the vesting terms, exercise terms and contractual lives of the options and 2015 ESPP purchase rights.

Expected Volatility. Since we do not have sufficient trading history of our common stock, the expected volatility was derived from the historical stock volatilities of several unrelated public companies within the same industry that we consider to be comparable to our business over a period equivalent to the expected term of the stock option grants and 2015 ESPP purchase rights.

Risk-free Interest Rate. The risk-free rate that we use is based on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

Dividend Yield. We have never declared or paid any cash dividends and do not plan to pay cash dividends in the foreseeable future, and, therefore, use an expected dividend yield of zero.

Note 9. Net Loss per Share

We calculate our basic and diluted net loss per share in conformity with the two-class method required for companies with participating securities. Under the two-class method, basic net loss per share is calculated by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period, less shares subject to repurchase. The diluted net loss per share is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period. For purposes of this calculation, options to purchase common stock, restricted stock units, employee stock purchase plan, repurchasable shares from early exercised options and unvested restricted stock, and contingently issuable shares are considered common stock equivalents but have been excluded from the calculation of diluted net loss per share as their effect is antidilutive.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

The rights, including the liquidation and dividend rights, of the holders of our Class A and Class B common stock are identical, except with respect to voting and conversion. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis and the resulting net loss per share will, therefore, be the same for both Class A and Class B common stock on an individual or combined basis. We did not present dilutive net loss per share on an as-if converted basis because the impact was not dilutive.

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share amounts):

	Three Months Ended October 31,			
	2017		2016	
	Class A	Class B	Class A	Class B
Numerator:				
Net loss	$(35,061)	$(7,863)	$(16,978)	$(21,255)
Denominator:				
Weighted-average number of shares outstanding—basic and diluted	109,972	24,664	56,964	71,311
Net loss per share—basic and diluted	$(0.32)	$(0.32)	$(0.30)	$(0.30)

	Nine Months Ended October 31,			
	2017		2016	
	Class A	Class B	Class A	Class B
Numerator:				
Net loss	$(84,998)	$(37,297)	$(46,036)	$(68,874)
Denominator:				
Weighted-average number of shares outstanding—basic and diluted	92,469	40,575	50,764	75,948
Net loss per share—basic and diluted	$(0.92)	$(0.92)	$(0.91)	$(0.91)

The following weighted-average outstanding shares of common stock equivalents were excluded from the computation of diluted net loss per share for the periods presented because the impact of including them would have been antidilutive (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Options to purchase common stock	11,997	13,036	12,094	13,900
Restricted stock units	13,962	10,249	13,382	9,623
Employee stock purchase plan	1,845	1,262	3,437	2,187
Repurchasable shares from early-exercised options and unvested restricted stock	164	312	206	350
Contingently issuable common stock	52	73	55	80
	28,020	24,932	29,174	26,140

Note 10. Income Taxes

Utilization of the net operating loss carryforwards and credits may be subject to substantial annual limitation due to the ownership change limitations provided by Section 382 of the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

We evaluate tax positions for recognition using a more-likely-than-not recognition threshold, and those tax positions eligible for recognition are measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon the effective settlement with a taxing authority that has full knowledge of all relevant information.

BOX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

We file tax returns in the United States for federal, California, and other states. All tax years remain open to examination for both federal and state purposes as a result of our net operating loss and credit carryforwards. We began to file foreign tax returns in the United Kingdom starting with the year ended January 31, 2013, in France, Germany and Japan starting with the year ended January 31, 2014, in Canada starting with the year ended January 31, 2015, and in Australia, Sweden, and Netherlands starting with the year ended January 31, 2016. Certain tax years remain open to examination.

We believe that we have provided adequate reserves for our income tax uncertainties in all open tax years. We do not expect our gross unrecognized tax benefits to change significantly over the next 12 months.

Note 11. Segments

Our chief operating decision maker reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. As such, we have a single reporting segment and operating unit structure. Since we operate in one operating segment, all required segment information can be found in the consolidated financial statements.

Note 12. Subsequent Events

On November 27, 2017, we entered into a secured credit agreement with Wells Fargo Bank, National Association with a maturity date of November 27, 2020 (November 2017 Facility). The November 2017 Facility provides for an $85.0 million revolving credit facility, with a sublimit of $30.0 million available for the issuance of letters of credit. The proceeds of the revolving loans may be used for general corporate purposes. The revolving loans accrue interest at a prime rate plus a margin of 0.25% or, at our option, a LIBOR rate (based on one, three or six-month interest periods) plus a margin of 1.00%. Interest on the revolving loans is payable quarterly in arrears with respect to loans based on the prime rate and at the end of an interest period in the case of loans based on the LIBOR rate (or at each three month interval if the interest period is longer than three months). As of November 29, 2017, there was $40.0 million in revolving loans outstanding and $26.0 million in letters of credit issued under the November 2017 Facility. Borrowings under the November 2017 Facility were collateralized by substantially all of our assets.

The November 2017 Facility requires us to comply with a maximum leverage ratio and a minimum liquidity requirement. Additionally, the November 2017 Facility contains customary affirmative and negative covenants, including covenants limiting our, and our subsidiaries', ability to, among other things, grant liens, incur debt, pay dividends or distributions on the capital stock, effect certain mergers, make investments, dispose of assets and enter into transactions with affiliates, in each case subject to customary exceptions for a credit facility of the size and type of the November 2017 Facility.

On November 27, 2017, we paid in full all amounts outstanding under the December 2015 Facility, including the outstanding principal balance of $40.0 million, and terminated the December 2015 Facility and all related loan documents and collateral documents, in conjunction with entering into the November 2017 Facility. We were not obligated to pay any early termination penalties as a result of the termination. The related remaining unamortized debt issuance and end of term fees was not material. We disclosed our debt commitment in Contractual Obligations and Commitments within Item 2 to reflect our entry into the November 2017 Facility and our termination of the December 2015 Facility.

On November 29, 2017, the restrictions on our certificates of deposits that collateralized the letters of credit were released as the letters of credit were deemed to be included under the November 2017 Facility sublimit. As such, we released $26.0 million from restricted cash to cash and cash equivalents. We expect the release of this restricted cash will have a material impact on the condensed consolidated balance sheet and consolidated statement of cash flows for the three months and twelve months ending January 31, 2018.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in the section titled "Risk Factors" and in other parts of this Quarterly Report on Form 10-Q.

Overview

Box provides a leading cloud content management platform that enables organizations of all sizes to securely manage cloud content while allowing easy, secure access and sharing of this content from anywhere, on any device. With our Software-as-a-Service (SaaS) cloud-based platform, users can collaborate on content both internally and with external parties, automate content-driven business processes, develop custom applications, and implement data protection, security and compliance features to comply with internal policies and industry regulations. Our platform enables a broad set of business use cases across an enterprise, across multiple file formats and media types, and user experiences. Our platform integrates with leading enterprise business applications, and is compatible with multiple application environments, operating systems and devices, ensuring that workers have access to their critical business content whenever and wherever they need it.

We were founded and publicly launched our platform in 2005 with a simple but powerful idea: to make it incredibly easy for people to securely manage, share and collaborate on their most important content online. In 2006, we introduced a free version of our product in order to rapidly grow our user base, and we surpassed one million registered users by July 2007. As users began to bring our solution into the workplace, we learned that businesses were eager for a solution to empower user-friendly content sharing and collaboration in a secure, manageable way. Starting in 2007, we began enhancing our platform to serve businesses and large enterprises, which meant expanding our business functionality with features such as our administrative console, identity integration, activity reporting and full-text search. To further satisfy the requirements of IT departments in large organizations, we began to invest heavily in enhancing the security of our platform. Also in 2007, we began to build an enterprise sales team. The continual evolution of our platform features allowed our sales team to sell into increasingly larger organizations. To empower users to work securely from anywhere, we built native applications for all major mobile platforms. The introduction of our iPad application in 2010 further accelerated enterprise adoption of our platform. In 2012, we introduced our Box OneCloud platform and our Box Embed framework to encourage developers and independent software vendors (ISVs) to build powerful applications that connect to Box, furthering the reach of the Box service. We continued to innovate by expanding our offerings to include Box KeySafe, a solution that builds on top of Box's strong encryption and security capabilities to give customers greater control over the encryption keys used to secure the file contents that are stored with Box; Box Governance, which gives customers a better way to comply with regulatory policies, satisfy e-discovery requests and effectively manage sensitive business information; Box Zones, which gives global customers the ability to store their data locally in certain regions; Box Platform, which further enables customers and partners to build enterprise apps using the Box Platform; and Box Relay, which allows our users to easily build, manage and track their own workflows. We continued to expand our international presence further with the opening of our international offices.

We offer our solution to our customers as a subscription-based service, with subscription fees based on the requirements of our customers, including the number of users and functionality deployed. The majority of our customers subscribe to our service through one-year contracts, although we also offer our services for terms ranging from one month to three years or more. We typically invoice our customers at the beginning of the term, in multiyear, annual, quarterly or monthly installments. We recognize subscription revenue ratably over the term of the subscription period.

Our objective is to build an enduring business that creates sustainable revenue and earnings growth over the long term. To best achieve this objective, we focus on growing the number of users and paying organizations through direct field sales, direct inside sales, indirect channel sales and through word-of-mouth by individual users, some of whom use our services at no cost. Individual users and organizations can also simply sign up to use our solution on our website. We believe this approach not only helps us build a critical mass of users but also has a viral effect within organizations as more of their employees use our service and encourage their IT professionals to deploy our services to a broader user base.

We have achieved significant growth in a short period of time. Our user base includes over 57 million registered users. We define a registered user as a Box account that has been provisioned to a unique user ID. As of October 31, 2017, over 17% of our registered users were paying users who register as part of a larger enterprise or business account or by using a personal account. We currently have 80,000 paying organizations, and our solution is offered in 22 languages. We define paying organizations as separate and distinct buying entities, such as a company, an educational or government institution, or a distinct business unit of a large corporation, that have entered into a subscription agreement with us to utilize our services.

Organizations typically purchase our solution in the following ways: (i) employees in one or more small groups within the organization may individually purchase our service; (ii) organizations may purchase IT-sponsored, enterprise-level agreements with deployments for specific, targeted use cases ranging from tens to thousands of user seats; (iii) organizations may purchase IT- sponsored, enterprise-level agreements where the number of user seats sold is intended to accommodate and enable nearly all information workers within the organization in whatever use cases they desire to adopt over the term of the subscription; or (iv) organizations may purchase our Box Platform service to create custom business applications for their internal use and extended ecosystem of customers, suppliers and partners.

We intend to continue scaling our organization to meet the increasingly complex needs of our customers. Our sales and customer success teams are organized to efficiently serve organizations ranging from small businesses to the world's largest global organizations. We have invested, and expect to continue to invest in our sales and marketing teams to sell our services around the world, as well as in our development efforts to deliver additional features and capabilities of our cloud services to address our customers' evolving needs. We also expect to continue to make investments in both our infrastructure to meet the needs of our growing user base both in and outside the United States, and in our professional services organization (Box Consulting) to address the strategic needs of our customers in more complex deployments and to drive broader adoption across a wide array of use cases. As a result of our continuing investments to scale our business in each of these areas, we do not expect to be profitable for the foreseeable future.

For the nine months ended October 31, 2017 and 2016, our revenue was $369.5 million and $288.7 million, respectively, representing year-over-year growth of 28%, and our net losses were $122.3 million and $114.9 million, respectively. For the nine months ended October 31, 2017 and 2016, revenue from customers outside the United States represented 21% and 17% of our revenue, respectively. Box is headquartered in Redwood City, California and operates offices across the United States, Europe, and Asia.

Our Business Model

Our business model focuses on maximizing the lifetime value of a customer relationship. We make significant investments in acquiring new customers and believe that we will be able to achieve a positive return on these investments by retaining customers, cross-selling our newer products and expanding the size of our deployments within our customer base over time. In connection with the acquisition of new customers, we incur and recognize significant upfront costs. These costs include sales and marketing costs associated with acquiring new customers, such as sales commission expenses, a significant portion of which is expensed upfront and the remaining portion of which is expensed over the length of the non-cancellable subscription term, and marketing costs, which are expensed as incurred. Due to our subscription model, we recognize revenue ratably over the term of the subscription period, which commences when all of the revenue recognition criteria have been met. Although our objective is for each customer to be profitable for us over the duration of our relationship, the costs we incur with respect to any customer relationship, whether a new customer or an expansion within an existing customer, may exceed revenue in earlier periods because we recognize those costs faster than we recognize the associated revenue.

Because of these dynamics, we experience a range of profitability with our customers depending in large part upon what stage of the customer phase they are in. We generally incur higher sales and marketing expenses for new customers and existing customers who are still in an expanding stage. For new customers, our associated sales and marketing expenses typically exceed the first year revenue we recognize from those customers. For customers who are expanding their use of Box, we incur various associated marketing expenses as well as sales commission expenses, though we typically recognize higher revenue than sales and marketing expenses. For typical customers who are renewing their Box subscriptions, our associated sales and marketing expenses are significantly less than the revenue we recognize from those customers. These differences are primarily driven by the higher compensation we provide to our sales force for new customers and customer subscription expansions compared to the compensation we provide to our sales force for routine subscription renewals by customers. In addition, our sales and marketing expenses, other than the compensation we provide to our sales force, are generally higher for acquiring new customers versus expansions or renewals of existing customer subscriptions. We believe that, over time, as our existing customer base grows and a relatively higher percentage of our revenue is attributable to renewals versus new or expanding Box deployments, we will experience lower associated sales and marketing expenses as a percentage of revenue.

Key Business Metrics

We use the key metrics below for financial and operational decision-making and as a means to evaluate period-to-period comparisons. We believe that these key metrics provide meaningful supplemental information regarding our performance. We believe that both management and investors benefit from referring to these key metrics in assessing our performance and when planning, forecasting, and analyzing future periods. These key metrics also facilitate management's internal comparisons to our historical performance as well as comparisons to certain competitors' operating results. We believe these key metrics are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by our institutional investors and the analyst community to help them analyze the health of our business.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Billings (in thousands)	$141,471	$112,405	$380,489	$294,864
Billings growth rate	26 %	26 %	29 %	23 %
Free cash flow (in thousands)	6,310	(10,899)	(4,381)	(35,017)
Retention rate (period end)	112 %	115 %	112 %	115 %

Billings

Billings represent our revenue plus the change in deferred revenue in the period. Billings we record in any particular period primarily reflect sales to new customers plus subscription renewals and expansion within existing customers, and represent amounts invoiced for all of our products and professional services. We typically invoice our customers at the beginning of the term, in multiyear, annual, quarterly or monthly installments. If the customer elects to pay the full subscription amount at the beginning of the period, the total subscription amount for the entire term will be reflected in billings. If the customer elects to be invoiced annually or more frequently, only the amount billed for such period will be included in billings.

We believe that billings help investors better understand our sales activity for a particular period, which is not necessarily reflected in our revenue given that we recognize subscription revenue ratably over the subscription term. We consider billings a significant performance measure and after adjusting for any shifts in relative payment frequencies, a leading indicator of future revenue. We monitor billings to manage our business, make planning decisions, evaluate our performance and allocate resources. We believe that billings offer valuable supplemental information regarding the performance of our business and will help investors better understand the sales volumes and performance of our business. Although we consider billings to be a significant performance measure, we do not consider it to be a non-GAAP financial measure given that it is calculated using exclusively revenue and deferred revenue, both of which are financial measures calculated in accordance with GAAP.

Billings increased 29% in the nine months ended October 31, 2017 over the nine months ended October 31, 2016. The increase in billings was primarily driven by the addition of new customers with larger initial deployments, expansion of the number of users within existing customers, and an enhanced developer access fee from one of our resellers.

Our use of billings has the following limitations as an analytical tool and should not be considered in isolation or as a substitute for revenue or an analysis of our results as reported under GAAP. Billings are recognized when invoiced, while the related revenue is recognized ratably over the term of the subscription or premier support services. When we invoice customers more frequently than their subscription period, amounts not yet invoiced will not be reflected in deferred revenue or billings. Also, other companies, including companies in our industry, may not use billings, may calculate billings differently, may have different billing frequencies, or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of billings as a comparative measure.

For the remainder of fiscal year 2018, we expect normalized payment durations. We expect our billings growth and revenue growth to correlate with one another which will mitigate fluctuations in billings not correlated to future revenue. In addition, as we have gained and expect to continue to gain more traction with large enterprise customers, we also anticipate our quarterly billings to increasingly concentrate in the back half of our fiscal year, especially in the fourth quarter.

A calculation of billings starting with revenue, the most directly comparable GAAP financial measure, is presented below (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
GAAP revenue	$129,304	$102,811	$369,467	$288,679
Deferred revenue, end of period	253,006	192,598	253,006	192,598
Less: deferred revenue, beginning of period	(240,839)	(183,004)	(241,984)	(186,413)
Billings	$141,471	$112,405	$380,489	$294,864

Free Cash Flow

We define free cash flow as cash from operating activities less purchases of property and equipment, principal payments of capital lease obligations, and other items that did not or are not expected to require cash settlement and which management considers to be outside of our core business. We specifically identify other adjusting items in our reconciliation of GAAP to non-GAAP financial measures. Historically, these items have included restricted cash used to guarantee significant letters of credit for our Redwood City headquarters. We consider free cash flow to be a profitability and liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that can possibly be used for investing in our business and strengthening the balance sheet; but it is not intended to represent the residual cash flow available for discretionary expenditures. A reconciliation of free cash flow to cash used in operating activities, its nearest GAAP equivalent, is presented in the non-GAAP Financial Measures section of this report. The presentation of free cash flow is also not meant to be considered in isolation or as an alternative to cash flows from operating activities as a measure of liquidity.

Free cash flow for the nine months ended October 31, 2017 was negative $4.4 million, an improvement of $30.6 million as compared to the nine months ended October 31, 2016. The increase in free cash flow was primarily driven by an increase in cash provided by operations of $29.1 million and a decrease in capital expenditures of $8.8 million, partially offset by an increase in capital lease obligation payments of $7.3 million. The primary factors affecting the increase in cash flow from operating activities include the changes in our operating assets and liabilities of $19.3 million and improvement of our net loss adjusted for non-cash charges by $9.8 million. The decrease in capital expenditures was primarily due to a reduction in capital expenditures related to the completion of our new Redwood City headquarters, partially offset by our facilities investments in Austin, Tokyo and London. As we continue to invest in our data center operations, we expect capital lease obligations to increase in the foreseeable future. Improvement in our working capital management process and the completion of our Redwood City headquarters have driven significant improvements in free cash flow.

Retention Rate

We calculate our retention rate as of a period end by starting with the annual contract value (ACV) from customers with contract value of $5,000 or more as of 12 months prior to such period end (Prior Period ACV) and a subscription term of at least 12 months. We then calculate ACV from these same customers as of the current period end (Current Period ACV). Finally, we divide the aggregate Current Period ACV for the trailing 12 month period by the aggregate Prior Period ACV for the trailing 12 month period to arrive at our retention rate. We believe our retention rate is an important metric that provides insight into the long-term value of our subscription agreements and our ability to retain and grow revenue from our customer base. We focus on contracts that have a value of $5,000 or more because, over time, these customers give us the best indicator for the growth of our business and the potential for incremental business as they renew and expand their deployments, and contracts with these customers represented a substantial majority of our revenue for the nine months ended October 31, 2017. Retention rate is an operational metric and there is no comparable GAAP financial measure to which we can reconcile this particular key metric.

Our retention rate was approximately 112% and 115% as of October 31, 2017 and 2016, respectively. The calculation of our retention rate reflects both net user expansion and the loss of customers who do not renew their subscriptions with us, which was below 5% of the Prior Period ACV. Our retention rates consistently exceeded 100% and were primarily attributable to an increase in user expansion. We believe our investments in product, Customer Success, and Box Consulting are driving our strong customer retention results. As we penetrate customer accounts, we expect our rate of growth in expansion to trend down over time but our retention rate to remain above 100% for the foreseeable future.

Components of Results of Operations

Revenue

We derive our revenue from three sources: (1) subscription revenue, which is comprised of subscription fees from customers utilizing our cloud content management platform and other subscription-based services, which all include routine customer support; (2) revenue from customers purchasing our premier support package; and (3) revenue from professional services such as implementing best practice use cases, project management and implementation consulting services.

To date, practically all of our revenue has been derived from subscription and premier support services. Subscription and premier support revenue is driven primarily by the number of customers, the number of seats sold to each customer and the price of our services.

Subscription and premier support revenue is recognized ratably over the contract term beginning on the later of the date the service is provisioned to the customer and the date all other revenue recognition criteria have been met. Our subscription and support contracts are typically non-cancellable and do not contain refund-type provisions. The majority of our customers subscribe to our service through one-year contracts, although we also offer our services for terms ranging between one month to three years or more. We typically invoice our customers at the beginning of the term, in multiyear, annual, quarterly or monthly installments. Amounts that have been invoiced are initially recorded as deferred revenue and are recognized ratably over the invoice period. Amounts that have not been invoiced are not reflected in deferred revenue.

Professional services revenue is recognized as the services are rendered for time and material contracts, and using the proportional performance method over the period the services are performed for fixed price contracts. Professional services revenue was not material for all periods presented.

Revenue is presented net of sales and other taxes we collect on behalf of governmental authorities.

Cost of Revenue

Our cost of revenue consists primarily of costs related to providing our cloud content management to our paying customers, including employee compensation and related expenses for datacenter operations, customer support and professional services personnel, payments to outside infrastructure service providers, depreciation of servers and equipment, security services and other tools, as well as amortization of acquired technology. We allocate overhead such as rent, information technology costs and employee benefit costs to all departments based on headcount. As such, general overhead expenses are reflected in cost of revenue and each of the operating expense categories set forth below. We expect our cost of revenue to increase in dollars and may increase as a percentage of revenue as we continue to invest in our datacenter operations and customer support to support the growth of our business, our customer base, as well as our international expansion.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel costs are the most significant component of each category of operating expenses. Operating expenses also include allocated overhead costs for facilities, information technology costs and employee benefit costs.

Research and Development. Research and development expense consists primarily of employee compensation and related expenses, as well as allocated overhead. Our research and development efforts are focused on scaling our platform, adding enterprise grade features, functionality and security, and enhancing the ease of use of our cloud-based services. We expect our research and development expense to increase in dollars but decrease as a percentage of revenue over time, as we continue to invest in our future products and services.

Sales and Marketing. Sales and marketing expense consists primarily of employee compensation and related expenses, sales commissions, marketing programs, travel-related expenses, as well as allocated overhead. Marketing programs include but are not limited to advertising, events, corporate communications, brand building, and product marketing. Sales and marketing expense also consists of datacenter and customer support costs related to providing our cloud-based services to our free users. We market and sell our cloud-based services worldwide through our direct sales organization and through indirect distribution channels such as strategic resellers. We expect our sales and marketing expense to continue to increase in dollars but decrease as a percentage of revenue over time as we increase the size of our sales and marketing organization and expand our international presence.

General and Administrative. General and administrative expense consists primarily of employee compensation and related expenses for administrative functions including finance, legal, human resources, recruiting, information systems and fees for external professional services and cloud based enterprise systems as well as allocated overhead. External professional services fees are primarily comprised of outside legal, litigation, accounting, temporary services, audit and outsourcing services. We expect our general and administrative expense to increase in dollars but to decrease as a percentage of revenue over time due to increasing operational excellence and scale.

Interest Expense, Net

Interest expense, net consists of interest expense and interest income. Interest expense consists of interest charges for our line of credit, fees on our letters of credit, the amortization of capitalized debt issuance costs, and capital leases. Interest income consists of interest earned on our cash, cash equivalents, and restricted cash. We have historically invested our cash in overnight deposits and short term, investment-grade corporate debt, and asset backed securities.

Other Income (loss), Net

Other income (loss), net consists primarily of gains and losses from foreign currency transactions and other income (expense).

Provision for Income Taxes

Provision for income taxes consists primarily of income taxes in certain foreign jurisdictions in which we conduct business and state income taxes in the United States and, as applicable, changes in our deferred taxes and related valuation allowance positions and uncertain tax positions.

Results of Operations

The following tables set forth our results of operations for the periods presented in dollars and as a percentage of our revenue:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Revenue	$129,304	$102,811	$369,467	$288,679
Cost of revenue(1)(2)	34,471	27,115	99,972	82,576
Gross profit	94,833	75,696	269,495	206,103
Operating expenses:				
Research and development(2)	34,812	29,652	102,388	84,824
Sales and marketing(2)	81,670	66,796	225,604	186,454
General and administrative(1)(2)	20,910	16,999	63,037	49,087
Total operating expenses	137,392	113,447	391,029	320,365
Loss from operations	(42,559)	(37,751)	(121,534)	(114,262)
Interest expense, net	(287)	(222)	(802)	(587)
Other income (loss), net	277	(22)	560	609
Loss before provision for income taxes	(42,569)	(37,995)	(121,776)	(114,240)
Provision for income taxes	355	238	519	670
Net loss	$(42,924)	$(38,233)	$(122,295)	$(114,910)
Net loss per common share, basic and diluted	$(0.32)	$(0.30)	$(0.92)	$(0.91)
Weighted-average shares used to compute net loss per share, basic and diluted	134,636	128,275	133,044	126,712

(1) Includes intangible assets amortization as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Cost of revenue	$—	$506	$365	$2,804
General and administrative	39	39	116	116
Total intangible assets amortization	$39	$545	$481	$2,920

(2) Includes stock-based compensation expense as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Cost of revenue	$2,814	$1,986	$7,945	$5,328
Research and development	9,705	7,730	28,419	21,602
Sales and marketing	8,208	6,744	23,882	18,390

General and administrative	4,796	3,457	12,290	9,750
Total stock-based compensation	$25,523	$19,917	$72,536	$55,070

	Three Months Ended October 31, 2017	2016	Nine Months Ended October 31, 2017	2016
Percentage of Revenue:				
Revenue	100 %	100 %	100 %	100 %
Cost of revenue(1)(2)	27	26	27	29
Gross profit	73	74	73	71
Operating expenses:				
Research and development(2)	27	29	28	29
Sales and marketing(2)	63	65	61	65
General and administrative(1)(2)	16	17	17	17
Total operating expenses	106	111	106	111
Loss from operations	(33)	(37)	(33)	(40)
Interest expense, net	—	—	—	—
Other income (loss), net	—	—	—	—
Loss before provision for income taxes	(33)	(37)	(33)	(40)
Provision for income taxes	—	—	—	—
Net loss	(33)%	(37)%	(33)%	(40)%

(1) Includes intangible assets amortization as follows:

	Three Months Ended October 31, 2017	2016	Nine Months Ended October 31, 2017	2016
Cost of revenue	— %	— %	— %	1 %
General and administrative	—	—	—	—
Total intangible assets amortization	— %	— %	— %	1 %

(2) Includes stock-based compensation expense as follows:

	Three Months Ended October 31, 2017	2016	Nine Months Ended October 31, 2017	2016
Cost of revenue	2 %	2 %	2 %	2 %
Research and development	8	8	8	7
Sales and marketing	6	7	7	6
General and administrative	4	3	3	3
Total stock-based compensation	20 %	20 %	20 %	18 %

Comparison of the Three Months Ended October 31, 2017 and 2016

Revenue

	Three Months Ended October 31,			
	2017	2016	$ Change	% Change
	(dollars in thousands)			
Revenue	$129,304	$102,811	$26,493	26 %

Revenue was $129.3 million for the three months ended October 31, 2017, compared to $102.8 million for the three months ended October 31, 2016, representing an increase of $26.5 million, or 26%. The increase in revenue was primarily driven by an increase in subscription services. The increase in subscription services was primarily due to the addition of new customers, as the number of paying organizations increased by 16% from October 31, 2016 to 2017, as well as increased sales of our additional product offerings. Also in this period, there were renewals from, and expansion within, existing customers as they broadened their deployment of our product offerings, as reflected in our retention rate of 112% as of October 31, 2017.

Cost of Revenue

	Three Months Ended October 31,			
	2017	2016	$ Change	% Change
	(dollars in thousands)			
Cost of revenue	$34,471	$27,115	$7,356	27 %
Percentage of revenue	27 %	26 %		

Cost of revenue was $34.5 million, or 27% of revenue, for the three months ended October 31, 2017, compared to $27.1 million, or 26% of revenue, for the three months ended October 31, 2016, representing an increase of $7.4 million, or 27%. The increase in absolute dollars was primarily due to an increase of $2.0 million in rent primarily related to the expansion of new data centers, a net increase of $1.9 million in depreciation primarily related to the purchase of additional data center equipment, an increase of $1.3 million in employee and related costs primarily driven by the increase in headcount from 227 as of October 31, 2016 to 258 as of October 31, 2017, an increase of $0.8 million in stock-based compensation expense primarily driven by an increase in equity grants, and an increase in investments for our growing paid users. The increase was partially offset by a decrease of $1.0 million in datacenter service costs due to further optimizations in infrastructure costs and a $0.5 million decrease in the amortization of certain intangible assets that reached the end of their estimated useful lives. Cost of revenue as a percentage of revenue increased 1 point year-over-year primarily due to our continued investments in our data center infrastructure to support our expected revenue growth in paying customers and new products.

Research and Development

	Three Months Ended October 31,			
	2017	2016	$ Change	% Change
	(dollars in thousands)			
Research and development	$34,812	$29,652	$5,160	17 %
Percentage of revenue	27 %	29 %		

Research and development expenses were $34.8 million, or 27% of revenue, for the three months ended October 31, 2017, compared to $29.7 million, or 29% of revenue, for the three months ended October 31, 2016, representing an increase of $5.2 million, or 17%. The increase in absolute dollars was primarily due to an increase of $3.3 million in employee and related costs primarily driven by the increase in headcount from 304 employees as of October 31, 2016 to 333 employees as of October 31, 2017, and an increase of $2.0 million in stock-based compensation expense primarily driven by the increase in equity grants. Despite an increase in absolute dollars spent, research and development expense as a percentage of revenue decreased 2 points year-over-year. While we continued to invest in our product and service offerings and develop new products, we were able to do so at a lower percentage of revenue year-over-year as our revenue growth outpaced our research and development spending.

Sales and Marketing

	Three Months Ended October 31,			
	2017	2016	$ Change	% Change
	(dollars in thousands)			
Sales and marketing	$81,670	$66,796	$14,874	22 %
Percentage of revenue	63 %	65 %		

Sales and marketing expenses were $81.7 million, or 63% of revenue, for the three months ended October 31, 2017, compared to $66.8 million, or 65% of revenue, for the three months ended October 31, 2016, representing an increase of $14.9 million, or 22%. The increase in absolute dollars was primarily due to an increase of $7.7 million in employee and related costs and an increase of $1.5 million in stock-based compensation expense primarily driven by the increase in headcount from 659 employees as of October 31, 2016 to 859 employees as of October 31, 2017. In addition, there was an increase of $3.0 million in allocated costs attributable mainly to increased facilities and infrastructure costs, an increase of $2.1 million in marketing expenses in connection with our annual user conference (BoxWorks 2017), investments in marketing technology and demand generation, and an increase of $1.6 million in commission expenses. The increase in sales and marketing expenses was partially offset by a $1.5 million decrease in datacenter and customer support costs to support our free users. Sales and marketing expenses as a percentage of revenue decreased 2 points year-over-year as our sales and marketing expenses are generally higher for acquiring new customers than for expansions or renewals of existing customer subscriptions, and a decrease in cost to support our free users. Over time, as our existing customer base grows and a relatively higher percentage of our revenue is attributable to renewals versus new or expanding Box deployments, we expect that sales and marketing expenses will continue to decrease as a percentage of revenue. We continue to invest aggressively to capture our large market opportunity and capitalize on our competitive position, while growing our sales and marketing efficiency to achieve our long-term margin objectives.

General and Administrative

	Three Months Ended October 31,			
	2017	2016	$ Change	% Change
	(dollars in thousands)			
General and administrative	$20,910	$16,999	$3,911	23 %
Percentage of revenue	16 %	17 %		

General and administrative expenses were $20.9 million, or 16% of revenue, for the three months ended October 31, 2017, compared to $17.0 million, or 17% of revenue, for the three months ended October 31, 2016, representing an increase of $3.9 million, or 23%. The increase in absolute dollars was primarily due to an increase of $2.3 million in employee and related costs and an increase of $1.3 million in stock-based compensation expense primarily driven by the increase in headcount from 220 employees as of October 31, 2016 to 276 employees as of October 31, 2017. In addition, there was a $0.7 million increase in enterprise subscription software.

Comparison of the Nine Months Ended October 31, 2017 and 2016

Revenue

	Nine Months Ended October 31,			
	2017	2016	$ Change	% Change
	(dollars in thousands)			
Revenue	$369,467	$288,679	$80,788	28 %

Revenue was $369.5 million for the nine months ended October 31, 2017, compared to $288.7 million for the nine months ended October 31, 2016, representing an increase of $80.8 million, or 28%. The increase in revenue was primarily driven by an increase in subscription services. The increase in subscription services was due to the addition of new customers, as the number of paying organizations increased by 16% from October 31, 2016 to 2017. Also in this period, there were renewals from, and expansion within, existing customers as they broadened their deployment of our product offerings, as reflected in our retention rate of 112% as of October 31, 2017.

Cost of Revenue

	Nine Months Ended October 31,			
	2017	2016	$ Change	% Change
	(dollars in thousands)			
Cost of revenue	$99,972	$82,576	$17,396	21 %
Percentage of revenue	27 %	29 %		

Cost of revenue was $100.0 million, or 27% of revenue, for the nine months ended October 31, 2017, compared to $82.6 million, or 29% of revenue, for the nine months ended October 31, 2016, representing an increase of $17.4 million, or 21%. The increase in absolute dollars was primarily due to an increase of $5.0 million in rent primarily related to the expansion of new data centers, an increase of $2.6 million in stock-based compensation expense primarily driven by the increase in headcount from 227 as of October 31, 2016 to 258 as of October 31, 2017, and an increase in equity grants, an increase of $2.0 million in employee and related costs, an increase of $1.8 million in outside agency consulting and contractor services, an increase of $1.4 million in datacenter service costs, and an increase in investments for our growing paid users. The increase was partially offset by a $2.4 million decrease in the amortization of certain intangible assets that reached the end of their estimated useful. Despite an increase in absolute dollars, cost of revenue as a percentage of revenue decreased 2 points year-over-year. While we continued to invest in our data center infrastructure to support our expected growth in paying customers and new products, we were able to do so at a lower percentage of revenue year-over-year as our revenue growth outpaced our data center infrastructure spending.

Research and Development

	Nine Months Ended October 31,			
	2017	2016	$ Change	% Change
	(dollars in thousands)			
Research and development	$102,388	$84,824	$17,564	21 %
Percentage of revenue	28 %	29 %		

Research and development expenses were $102.4 million, or 28% of revenue, for the nine months ended October 31, 2017, compared to $84.8 million, or 29% of revenue, for the nine months ended October 31, 2016, representing an increase of $17.6 million, or 21%. The increase in absolute dollars was primarily due to an increase of $9.5 million in employee and related costs and an increase of $6.8 million in stock-based compensation expense primarily driven by the increase in headcount from 304 employees as of October 31, 2016 to 333 employees as of October 31, 2017, and an increase in equity grants. In addition, there was an increase of $1.5 million in outside agency consulting and contractor services related to enhancements of our products and development of new products. Despite an increase in absolute dollars spent, research and development expense as a percentage of revenue decreased 1 point year-over-year. While we continued to invest in our product and service offerings and develop new products, we were able to do so at a lower percentage of revenue year-over-year as our revenue growth outpaced our research and development spending.

Sales and Marketing

	Nine Months Ended October 31,			
	2017	2016	$ Change	% Change
	(dollars in thousands)			
Sales and marketing	$225,604	$186,454	$39,150	21 %
Percentage of revenue	61 %	65 %		

Sales and marketing expenses were $225.6 million, or 61% of revenue, for the nine months ended October 31, 2017, compared to $186.5 million, or 65% of revenue, for the nine months ended October 31, 2016, representing an increase of $39.2 million, or 21%. The increase in absolute dollars was primarily due to an increase of $20.6 million in employee and related costs and an increase of $5.5 million in stock-based compensation primarily driven by the increase in headcount from 659 employees as of October 31, 2016 to 859 employees as of October 31, 2017. In addition, there was an increase of $6.1 million in allocated costs attributable mainly to increased facilities and infrastructure costs, an increase of $5.0 million in commission expenses, an increase of $4.2 million in marketing expenses related to our annual user conference (BoxWorks 2017), investments in marketing technology and demand generation, and an increase of $1.5 million in travel-related costs. The increase in sales and marketing expenses was partially offset by a $5.8 million decrease in datacenter and customer support costs to support our free users. Sales and marketing expenses as a percentage of revenue decreased 4 points year over year primarily due to improved marketing efficiency, as our sales and marketing expenses are generally higher for acquiring new customers versus expansions or renewals of existing customer subscriptions, and a decrease in cost to support our free users. Over time, as our existing customer base grows and a relatively higher percentage of our revenue is attributable to renewals rather than new or expanding Box deployments, we expect that sales and marketing expenses will continue to decrease as a percentage of revenue. We continue to invest aggressively to capture our large market opportunity and capitalize on our competitive position, while growing our sales and marketing efficiency to achieve our long-term margin objectives.

General and Administrative

	Nine Months Ended October 31,			
	2017	2016	$ Change	% Change
	(dollars in thousands)			
General and administrative	$63,037	$49,087	$13,950	28 %
Percentage of revenue	17 %	17 %		

General and administrative expenses were $63.0 million, or 17% of revenue, for the nine months ended October 31, 2017, compared to $49.1 million, or 17% of revenue, for the nine months ended October 31, 2016, representing an increase of $14.0 million, or 28%. The increase in absolute dollars was primarily due to an increase of $5.3 million in employee and related costs, and an increase of $2.5 million in stock-based compensation expense primarily driven by the increase in headcount from 220 employees as of October 31, 2016 to 276 employees as of October 31, 2017, an increase of $4.2 million in outside agency and contractor costs as we further invest in our systems, processes and infrastructure, and an increase of $1.6 million in enterprise subscription software. In addition, general and administrative expense for the nine months ended October 31, 2016 includes a benefit of $1.7 million recorded in connection with the settlement agreement reached with Open Text.

Liquidity and Capital Resources

	Nine Months Ended October 31,	
	2017	2016
	(in thousands)	
Net cash provided by (used in) operating activities	$13,112	$(15,939)
Net cash used in investing activities	(4,769)	(6,258)
Net cash (used in) provided by financing activities	(12,967)	4,203

As of October 31, 2017, we had cash and cash equivalents of $172.9 million. Our cash and cash equivalents are comprised primarily of overnight cash deposits. Since our inception, we have financed our operations primarily through equity, cash generated from sales and, to a lesser extent, debt financing. We believe our existing cash and cash equivalents, together with our credit facilities, will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, subscription renewal activity, billing frequency, the timing and extent of spending to support development efforts, the expansion of sales and marketing and international operation activities, the introduction of new and enhanced services offerings, and the continuing market acceptance of our services. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be adversely affected.

In December 2015, we entered into a revolving credit facility (December 2015 Facility), which provided for a revolving loan facility in the amount of up to $40.0 million maturing in December 2017. In February 2017, we amended the December 2015 Facility to extend the maturity date to December 2018. The December 2015 Facility was denominated in U.S. dollars and, depending on certain conditions, each borrowing was subject to a floating interest rate equal to either the prime rate plus a spread of 0.25% to 2.75% or a reserve adjusted LIBOR rate (based on one, three or six-month interest periods) plus a spread of 1.25% to 3.75%. Although no minimum deposit was required for the December 2015 Facility, we were eligible for the lowest interest rate if we maintained at least $40 million in deposits with the lender. In addition, there was an annual fee of 0.2% on the total commitment amount. At closing, we drew $40.0 million at 1.82% (six month LIBOR plus 1.25%). Borrowings under the December 2015 Facility were collateralized by substantially all of our assets in the United States. The December 2015 Facility also contained various covenants, including covenants related to the delivery of financial and other information, the maintenance of quarterly financial covenants, as well as customary limitations on dispositions, mergers or consolidations and other corporate activities.

On November 27, 2017, we terminated the December 2015 Facility and entered into the November 2017 Facility. Refer to Note 12 within Item 1 for additional details.

Operating Activities

For the nine months ended October 31, 2017, cash provided by operating activities was $13.1 million. The primary factor affecting our operating cash flows during this period was our net loss of $122.3 million, partially offset by non-cash charges of $117.5 million and changes in our operating assets and liabilities of $17.9 million. Non-cash charges consisted primarily of $72.5 million for stock-based compensation, $29.3 million for depreciation and amortization of our property and equipment and intangible assets, and $15.7 million for amortization of deferred commissions.

The primary drivers for the changes in operating assets and liabilities include a $24.3 million decrease in accounts receivable that was primarily due to increased efforts in cash collections, a $13.2 million increase in deferred commissions due to new and expanded deployments with paying customers in the nine months ended October 31, 2017, an $11.0 million increase in deferred revenue, and a $4.2 million decrease in accounts payable, accrued expenses and other liabilities primarily attributable to timing of invoice payments, which include payments related to our investment in international expansion for the nine months ended October 31, 2017.

Investing Activities

Cash used in investing activities of $4.8 million for the nine months ended October 31, 2017 was primarily due to capital expenditures in connection with fixed asset purchases to support our increased headcount and facilities investments in Austin, London, and Tokyo.

Financing Activities

Cash used in financing activities of $13.0 million for the nine months ended October 31, 2017 was primarily due to $26.2 million of employee payroll taxes paid related to net share settlement of restricted stock units and $12.7 million of payments of capital lease obligations, partially offset by $17.5 million of proceeds from issuances of common stock under the 2015 ESPP, and $9.4 million of proceeds from the exercise of stock options.

Contractual Obligations and Commitments

The following summarizes our contractual obligations and commitments as of October 31, 2017:

	Payments Due by Period (in thousands)				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Debt(1)(2)	$41,246	$1,147	$40,099	$—	$—
Operating lease obligations, net of sublease income amounts (3)	293,016	27,150	65,197	56,931	143,738
Capital leases(4)	46,299	18,973	23,746	3,580	—
Purchase obligations(5)	52,918	20,631	32,287	—	—
Total	$433,479	$67,901	$161,329	$60,511	$143,738

(1) Includes interest and commitment fee on our December 2015 Facility.

(2) Does not reflect the termination of the December 2015 Facility and entry into the November 2017 Facility. Refer to Note 12 within Item 1 for additional details. The contractual debt obligation, as of November 30, 2017 and as adjusted for the November 2017 Facility, would have been $43.5 million.

(3) Includes operating lease obligations for our buildings and certain data centers. As of October 31, 2017, we expected to receive sublease income of $11.0 million over the next three years from tenants in certain of our leased

facilities. The amounts set forth in the table above are net of these sublease income amounts.
(4) Includes obligations related to our datacenter hardware.
(5) Purchase obligations relate primarily to datacenter operations and sales and marketing activities.

Off-Balance Sheet Arrangements

Through October 31, 2017, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes to our critical accounting policies and estimates during the nine months ended October 31, 2017 from those disclosed in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended January 31, 2017.

Recent Accounting Pronouncement

Refer to Part I, Item 1. Financial Statements—Note 1 for information regarding the effect of new accounting pronouncements on our financial statements.

Non-GAAP Financial Measures

Regulation S-K Item 10(e), “Use of Non-GAAP Financial Measures in Commission Filings,” defines and prescribes the conditions for use of non-GAAP financial information. Our measures of non-GAAP operating loss, non-GAAP operating margin, non-GAAP net loss, non-GAAP net loss per share, and free cash flow (collectively, the non-GAAP financial measures) each meet the definition of a non-GAAP financial measure.

We use these non-GAAP financial measures and our key metrics for financial and operational decision-making and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures and key metrics provide meaningful supplemental information regarding our performance by excluding certain expenses that may not be indicative of our recurring core business operating results. We believe that both management and investors benefit from referring to these non-GAAP financial measures and key metrics in assessing our performance and when planning, forecasting, and analyzing future periods. These non-GAAP financial measures and key metrics also facilitate management's internal comparisons to our historical performance as well as comparisons to our competitors' operating results. We believe these non-GAAP financial measures and key metrics are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by our institutional investors and the analyst community to help them analyze the health of our business.

Non-GAAP operating loss and non-GAAP operating margin

We define non-GAAP operating loss as operating loss excluding expenses related to stock-based compensation, intangible assets amortization, and as applicable, other special items. We specifically identify other adjusting items in our reconciliation of GAAP to Non-GAAP financial measures. Non-GAAP operating margin is defined as non-GAAP operating loss divided by revenue. Similarly, the same items are also excluded from the calculation of non-GAAP operating margins. Although stock-based compensation is an important aspect of the compensation of Box’s employees and executives, determining the fair value of certain of the stock-based instruments we utilize involves a high degree of judgment and estimation and the expense recorded may bear little resemblance to the actual value realized upon the vesting or future exercise of the related stock-based awards. Furthermore, unlike cash compensation, the value of stock options, which is an element of our ongoing stock-based compensation expense, is determined using a complex formula that incorporates factors, such as market volatility, that are beyond our control. For restricted share unit awards, the amount of stock-based compensation expenses is not reflective of the value ultimately received by the grant recipients. Management believes it is useful to exclude stock-based compensation in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. Management also views amortization of acquisition-related intangible assets, such as the amortization of the cost associated with an acquired company’s research and development efforts, trade names and customer relationships, as items arising from pre-acquisition activities determined at the time of an acquisition. While these intangible assets are continually evaluated for impairment, amortization of the cost of acquired intangible assets is a static expense, one that is not typically affected by operations during any particular period. We further exclude legal settlement and related costs because they are considered by management to be special items outside our core operating results.

Non-GAAP net loss and net loss per share

We define non-GAAP net loss as net loss excluding expenses related to stock-based compensation, intangible assets amortization and as applicable, other special items. We specifically identify other adjusting items in our reconciliation of GAAP to non-GAAP financial measures. We define non-GAAP net loss per share as non-GAAP net loss divided by the weighted average outstanding shares. We exclude expenses related to certain litigation because they are considered by management to be special items outside our core operating results.

Free Cash Flow

We define free cash flow as cash from operating activities less purchases of property and equipment, principal payments of capital lease obligations, and other items that did not or are not expected to require cash settlement and that management considers to be outside of our core business. We specifically identify other adjusting items in our reconciliation of GAAP to non-GAAP financial measures. Historically, these items have included restricted cash used to guarantee significant letters of credit for our Redwood City headquarters. We consider free cash flow to be a profitability and liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that can possibly be used for investing in our business and strengthening the balance sheet, but it is not intended to represent the residual cash flow available for discretionary expenditures. A reconciliation of free cash flow to cash used in operating activities, its nearest GAAP equivalent, is presented below. The presentation of free cash flow is also not meant to be considered in isolation or as an alternative to cash flows from operating activities as a measure of liquidity.

Limitations on the use of non-GAAP financial measures

A limitation of our non-GAAP financial measures is that they do not have uniform definitions. Our definitions will likely differ from the definitions used by other companies, including peer companies, and therefore comparability may be limited. Thus, our non-GAAP measures should be considered in addition to, not as a substitute for, or in isolation from, measures prepared in accordance with GAAP. Additionally, in the case of stock-based compensation expense, if we did not pay a portion of compensation in the form of stock-based compensation expense, the cash salary expense included in costs of revenue and operating expenses would be higher which would affect our cash position.

We compensate for these limitations by reconciling non-GAAP financial measures to the most comparable GAAP financial measures. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view our non-GAAP financial measures in conjunction with the most comparable GAAP financial measures.

Our reconciliation of the non-GAAP financial measures for the three and nine months ended October 31, 2017 and 2016 are as follows (in thousands, except per share data and percentages):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
GAAP operating loss	$(42,559)	$(37,751)	$(121,534)	$(114,262)
Stock-based compensation	25,523	19,917	72,536	55,070
Intangible assets amortization	39	545	481	2,920
Expenses related to a legal verdict(1)	—	—	—	(1,664)
Non-GAAP operating loss	$(16,997)	$(17,289)	$(48,517)	$(57,936)
GAAP operating margin	(33)%	(37)%	(33)%	(40)%
Stock-based compensation	20	19	20	19
Intangible assets amortization	—	1	—	1
Expenses related to a legal verdict(1)	—	—	—	(1)
Non-GAAP operating margin	(13)%	(17)%	(13)%	(21)%
GAAP net loss	$(42,924)	$(38,233)	$(122,295)	$(114,910)
Stock-based compensation	25,523	19,917	72,536	55,070
Intangible assets amortization	39	545	481	2,920
Expenses related to a legal verdict(1)	—	—	—	(1,664)
Non-GAAP net loss	$(17,362)	$(17,771)	$(49,278)	$(58,584)
GAAP net loss per share, basic and diluted	$(0.32)	$(0.30)	$(0.92)	$(0.91)
Stock-based compensation	0.19	0.16	0.55	0.43
Intangible assets amortization	—	—	—	0.02
Expenses related to a legal verdict(1)	—	—	—	—
Non-GAAP net loss per share, basic and diluted	$(0.13)	$(0.14)	$(0.37)	$(0.46)
Weighted-average shares outstanding, basic and diluted	134,636	128,275	133,044	126,712
GAAP net cash provided by (used in) operating activities	$14,094	$(6,829)	$13,112	$(15,939)
Purchases of property and equipment	(3,003)	(1,892)	(4,800)	(13,639)
Payments of capital lease obligations	(4,781)	(2,178)	(12,693)	(5,439)
Free cash flow	$6,310	$(10,899)	$(4,381)	$(35,017)
Net cash used in investing activities	$(3,001)	$(1,884)	$(4,769)	$(6,258)
Net cash (used in) provided by financing activities	$(3,423)	$3,194	$(12,967)	$4,203

(1) Included in general and administrative expenses in the consolidated statements of operations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We had cash, cash equivalents and restricted cash of $172.9 million as of October 31, 2017. Our cash equivalents and restricted cash primarily consist of overnight deposits and certificates of deposits. All restricted cash is recorded at its estimated fair value. We do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates and we do not enter into investments for trading or speculative purposes.

In December 2015, we entered into a revolving credit facility (December 2015 Facility) in the amount of up to $40.0 million, which was originally scheduled to mature in December 2017. The December 2015 Facility was denominated in U.S. dollars and, depending on certain conditions, each borrowing was subject to a floating interest rate equal to either the prime rate plus a spread of 0.25% to 2.75% or a reserve adjusted LIBOR rate (based on one, three or six-month interest periods) plus a spread of 1.25% to 3.75%. Although no minimum deposit was required for the December 2015 Facility, we were eligible for the lowest interest rate if we maintained at least $40 million in deposits with the lender. In February 2017, we amended the December 2015 Facility to extend the maturity date to December 2018.

Interest rate risk also reflects our exposure to movements in interest rates associated with the December 2015 Facility. As of October 31, 2017, we had total debt outstanding with a carrying amount of $40 million which approximates fair value. A hypothetical 10% increase or decrease in interest rates of October 31, 2017 would not have a material impact on the fair value of our outstanding debt.

On November 27, 2017, we terminated the December 2015 Facility and entered into the November 2017 Facility. The revolving loans accrue interest at a prime rate plus a margin of 0.25% or, at our option, a LIBOR rate (based on one, three or six-month interest periods) plus a margin of 1.00%. As of November 29, 2017, there was $40.0 million in revolving loans outstanding and $26.0 million in letters of credit issued under the November 2017 Facility. Refer to Note 12 within Item 1 for additional details. A hypothetical 10% increase or decrease in interest rate under the November 2017 Facility would not have a material impact on the fair value of our outstanding debt.

Foreign Currency Risk

Our sales contracts are denominated predominantly in U.S. dollars. We support sales contracts denominated in 16 foreign currencies and consequently, our customer billings denominated in foreign currencies are subject to foreign currency exchange risk. 11 of the 16 currencies are only offered at this time through our online sales experience and are required to be settled by credit cards; accordingly, our foreign currency exposure on these transactions is limited only to ordinary credit card settlement timeframes. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies, which are also subject to fluctuations due to changes in foreign currency exchange rates. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. To date we have managed our foreign currency risk by maintaining offsetting assets and liabilities and minimizing non-USD cash balances, and have not entered into derivatives or hedging transactions as our exposure to foreign currency exchange rates has not been material to our historical operating results; however, we may do so in the future if our exposure to foreign currency should become more significant. There were no significant foreign exchange gains or losses in the nine months ended October 31, 2017 and 2016.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we are a party to litigation and subject to claims that arise in the ordinary course of business. We investigate these claims as they arise, and accrue estimates for resolution of legal and other contingencies when losses are probable and estimable. Although the results of litigation and claims cannot be predicted with certainty, we believe there was not at least a reasonable possibility that we had incurred a material loss with respect to such loss contingencies as of October 31, 2017.

Item 1A. RISK FACTORS

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes, before making a decision to invest in our Class A common stock. If any of the risks actually occur, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Our Industry

We have a history of cumulative losses, and we do not expect to be profitable for the foreseeable future.

We have incurred significant losses in each period since our inception in 2005. We incurred net losses of $151.8 million, $202.9 million and $168.2 million in our fiscal years ended January 31, 2017, 2016 and 2015, respectively, and $122.3 million in the nine months ended October 31, 2017. As of October 31, 2017, we had an accumulated deficit of 1.0 billion. These losses and accumulated deficit reflect the substantial investments we made to acquire new customers and develop our services. We intend to continue scaling our business to increase our number of users and paying organizations and to meet the increasingly complex needs of our customers. We have invested, and expect to continue to invest, in our sales and marketing organizations to sell our services around the world and in our product development organization to deliver additional features and capabilities of our cloud services to address our customers’ evolving needs. We also expect to continue to make significant investments in our infrastructure and in our professional service organization as we focus on customer success. As a result of our continuing investments to scale our business in each of these areas, we do not expect to be profitable for the foreseeable future. Furthermore, to the extent we are successful in increasing our customer base, we will also incur increased losses due to upfront costs associated with acquiring new customers, particularly as a result of the limited free trial version of our service, and the nature of subscription revenue which is generally recognized ratably over the term of the subscription period, which is typically one year, although we also offer our services for terms ranging from one month to three years or more. We cannot assure you that we will achieve profitability in the future or that, if we do become profitable, we will sustain profitability.

We have a limited operating history, which makes it difficult to predict our future operating results.

We were incorporated and introduced our first service in 2005. As a result of our limited operating history, our ability to accurately forecast our future operating results is limited and subject to a number of uncertainties. We have encountered, and will continue to encounter, risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties (which we use to plan our business) are incorrect or change due to changes in our markets, or if we do not address these risks and uncertainties successfully, our operating and financial results could differ materially from our expectations, and our business could suffer.

The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results could be harmed.

The market for cloud content management services is fragmented, rapidly evolving and highly competitive, with relatively low barriers to entry for certain applications and services. Many of our competitors and potential competitors are larger and have greater name recognition, substantially longer operating histories, larger marketing budgets and significantly greater resources than we do. Our competitors include, but are not limited to, Microsoft, Google, Dropbox, and Open Text (including Documentum). With the introduction of new technologies and market entrants, we expect competition to continue to intensify in the future. If we fail to compete effectively, our business will be harmed. Some of our principal competitors offer their products or services at a lower price, which has resulted in pricing pressures on our business. If we are unable to achieve our target pricing levels, our operating results would be negatively impacted. In addition, pricing pressures and increased competition generally could result in reduced sales, lower margins, losses or the failure of our services to achieve or maintain widespread market acceptance, any of which could harm our business.

Many of our competitors are able to devote greater resources to the development, promotion and sale of their products or services. In addition, many of our competitors have established marketing relationships and major distribution agreements with channel partners, consultants, system integrators and resellers. Moreover, many software vendors could bundle products or offer them at lower prices as part of a broader product sale or enterprise license arrangement. Some competitors may offer products or services that address one or a number of business execution functions at lower prices or with greater depth than our services. As a result, our competitors may be able to respond more quickly and effectively to new or changing opportunities, technologies, standards or customer requirements. Furthermore, some potential customers, particularly large enterprises, may elect to develop their own internal solutions. For any of these reasons, we may not be able to compete successfully against our current and future competitors.

If the market for cloud-based enterprise service declines or develops more slowly than we expect, our business could be adversely affected.

The market for cloud-based enterprise services is not as mature as the on-premise enterprise software market, and it is uncertain whether a cloud-based service like ours will achieve and sustain high levels of customer demand and market acceptance. Because we derive, and expect to continue to derive, substantially all of our revenue and cash flows from sales of our cloud content management and collaboration solution, our success will depend to a substantial extent on the widespread adoption of cloud computing in general and of cloud-based content collaboration services in particular. Many organizations have invested substantial personnel and financial resources to integrate traditional enterprise software into their organizations and, therefore, may be reluctant or unwilling to migrate to a cloud-based model for storing, accessing, sharing and managing their content. It is difficult to predict customer adoption rates and demand for our services, the future growth rate and size of the cloud computing market or the entry of competitive services. The expansion of the cloud content management and collaboration market depends on a number of factors, including the cost, performance and perceived value associated with cloud computing, as well as the ability of companies that provide cloud-based services to address security and privacy concerns. If we or other providers of cloud-based services experience security incidents, loss of customer data, disruptions in delivery of services, network outages, disruptions in the availability of the internet or other problems, the market for cloud-based services as a whole, including our services, may be negatively affected. If cloud-based services do not achieve widespread adoption, or there is a reduction in demand for cloud-based services caused by a lack of customer acceptance, technological challenges, weakening economic or political conditions, security or privacy concerns, competing technologies and products, decreases in corporate spending or otherwise, it could result in decreased revenue, harm our growth rates, and adversely affect our business and operating results.

We have experienced rapid growth. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or adequately address competitive challenges.

We have experienced a period of rapid growth in our operations, employee headcount, and the size of our customer base. You should not consider our recent growth as indicative of our future performance. However, we anticipate that we will continue to expand our operations and employee headcount in the near term, including internationally. This growth has placed, and future growth will place, a significant strain on our management, administrative, operational and financial infrastructure. Our success will depend in part on our ability to manage this growth effectively. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls, as well as our reporting systems and procedures. Failure to effectively manage our growth could result in difficulty or delays in deploying customers, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new features or other operational difficulties. Any of these difficulties could adversely impact our business performance and operating results.

Our business depends substantially on customers renewing their subscriptions with us and expanding their use of our services. Any decline in our customer renewals or failure to convince our customers to broaden their use of our services would harm our future operating results.

In order for us to maintain or improve our operating results, it is important that our customers renew their subscriptions with us when their existing subscription term expires. Our customers have no obligation to renew their subscriptions upon expiration, and we cannot assure you that customers will renew subscriptions at the same or higher level of service, if at all. Although our retention rate remains high, it has decreased over time as some of our customers have elected not to renew their subscriptions with us.

Our retention rate may decline or fluctuate as a result of a number of factors, including our customers' satisfaction or dissatisfaction with our services, the effectiveness of our customer support services, the performance of our partners and resellers, our pricing, the prices of competing products or services, mergers and acquisitions affecting our customer base, the effects of global economic conditions or reductions in our customers' spending levels. If our customers do not renew their subscriptions, purchase fewer seats, renew on less favorable terms or fail to purchase new product offerings, our revenue may decline, and we may not realize improved operating results from our customer base.

In addition, the growth of our business depends in part on our customers expanding their use of our services. The use of our cloud content platform often expands within an organization as new users are added or as additional services are purchased by or for other departments within an organization. Further, as we have introduced new services throughout our operating history, our existing customers have constituted a significant portion of the users of such services. If we are unable to encourage our customers to broaden their use of our services, our operating results may be adversely affected.

If we are not able to provide successful enhancements, new features and modifications to our services, our business could be adversely affected.

Our industry is marked by rapid technological developments and new and enhanced applications and services. If we are unable to provide enhancements and new features for our existing services or offer new services that achieve market acceptance or that keep pace with rapid technological developments, our business could be adversely affected. For example, we have introduced Box Relay, a tool that allows users to create custom workflows, Box Platform, which allows our customers to leverage Box's powerful content services within their own custom applications, Box KeySafe, a solution that builds on top of Box's strong encryption and security capabilities to give customers greater control over the encryption keys used to secure the file contents that are stored with Box, Box Zones, which gives global customers the ability to store their data locally in certain regions, Box Accelerator, which improves upload speeds for our global customers, and Box Governance, which gives customers a better way to comply with regulatory policies, satisfy e-discovery requests and effectively manage sensitive business information. The success of any enhancements, new features or services depends on several factors, including the timely completion, introduction and market acceptance of such enhancements, features or services. Failure in this regard may significantly impair our revenue growth. In addition, because our services are designed to operate on a variety of systems, we will need to continuously modify and enhance our services to keep pace with changes in internet-related hardware, mobile operating systems such as iOS and Android, and other software, communication, browser and database technologies. We may not be successful in either developing these modifications and enhancements or in bringing them to market in a timely fashion. Furthermore, modifications to existing platforms or technologies will increase our research and development expenses. Any failure of our services to operate effectively with existing or future network platforms and technologies could reduce the demand for our services, result in customer dissatisfaction and adversely affect our business.

Actual or perceived security vulnerabilities in our services or any breaches of our security controls and unauthorized access to a customer's data could harm our business and operating results.

The services we offer involve the storage of large amounts of our customers' sensitive and proprietary information across a broad industry spectrum. Cyber attacks and other malicious internet-based activity continue to increase in frequency and in magnitude generally, and cloud-based content collaboration services have been targeted in the past. These increasing threats are being driven by a variety of sources including nation-state sponsored espionage and hacking activities, industrial espionage, organized crime, sophisticated organizations and hacking groups and individuals. These sources can also implement social engineering techniques to induce our partners, users, employees or customers to disclose passwords or other sensitive information or take other actions to gain access to our users' data. Additionally, hackers that acquire user account information at other companies can attempt to use that information to compromise our users' accounts if an account shares the same sensitive information such as passwords. As we increase our customer base and our brand becomes more widely known and recognized, and as our service is used in more heavily regulated industries where there may be a greater concentration of sensitive and protected data, such as healthcare, government, life sciences, and financial services, we may become more of a target for these malicious third parties.

If our security measures are or are believed to be inadequate or breached as a result of third-party action, employee negligence, error or malfeasance, product defects, social engineering techniques or otherwise, and this results in, or is believed to result in, the disruption of the confidentiality, integrity or availability of our customers' data, we could incur significant liability to our customers and to individuals or organizations whose information is being stored by our customers, and our business may suffer and our reputation or competitive position may be damaged. Techniques used to obtain unauthorized access to, or to sabotage, systems or networks, are constantly evolving and generally are not recognized until launched against a target. Therefore, we may be unable to anticipate these techniques, react in a timely manner, or implement adequate preventive measures. In addition, our customer contracts often include (i) specific obligations that we maintain the availability of the customer's data through our service and that we secure customer content against unauthorized access or loss, and (ii) provisions whereby we indemnify our customers for third-party claims asserted against them that result from our failure to maintain the availability of their content or securing the same from unauthorized access or loss. While our customer contracts contain limitations on our liability in connection with these obligations and indemnities, if an actual or perceived security breach occurs, the market perception of the effectiveness of our security measures could be harmed, we could be subject to indemnity or damage claims in certain customer contracts, and we could lose future sales and customers, any of which could harm our business and operating results. Furthermore, while our errors and omissions insurance policies include liability coverage for these matters, if we experienced a widespread security breach that impacted a significant number of our customers to whom we owe these indemnity obligations, we could be subject to indemnity claims that exceed such coverage.

Our sales to government entities are subject to a number of additional challenges and risks.

We sell to U.S. federal and state and foreign government agencies customers, and we may increase sales to government entities in the future. Sales to government entities are subject to a number of additional challenges and risks. Selling to government entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Government certification requirements may change, or we may lose one or more government certifications, and in doing so restrict our ability to sell into the government sector until we have attained revised certifications. Government demand and payment for our products and services are affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our solutions. Government entities may also have statutory, contractual or other legal rights to terminate contracts with us for convenience or due to a default, and any such termination may adversely affect our future operating results.

As a substantial portion of our sales efforts are increasingly targeted at enterprise customers, our sales cycle may become longer and more expensive, we may encounter greater pricing pressure and implementation and customization challenges, and we may have to delay revenue recognition for more complicated transactions, all of which could harm our business and operating results.

As a substantial portion of our sales efforts are increasingly targeted at enterprise customers, we face greater costs, longer sales cycles and less predictability in the completion of some of our sales. In this market segment, the customer's decision to use our services may be an enterprise-wide decision, in which case these types of sales require us to provide greater levels of customer education regarding the uses and benefits of our services, as well as education regarding security, privacy, and data protection laws and regulations, especially for those customers in more heavily regulated industries or those with significant international operations. In addition, larger enterprises may demand more customization, integration and support services, and features. As a result of these factors, these sales opportunities may require us to devote greater sales support and professional services resources to these customers, which could increase our costs, lengthen our sales cycle and leave fewer sales support and professional services resources for other customers. This would potentially require us to delay revenue recognition on some of these transactions until the technical or implementation requirements have been met. Professional services may also be performed by a third party or a combination of our own staff and a third party. Our strategy is to work with third parties to increase the breadth of capability and depth of capacity for delivery of these services to our customers. If a customer is not satisfied with the quality or interoperability of our services with their own IT environment, we could incur additional costs to address the situation, which could adversely affect our margins. Moreover, any customer dissatisfaction with our services could damage our ability to encourage broader adoption of our services by that customer. In addition, any negative publicity resulting from such situations, regardless of its accuracy, may further damage our business by affecting our ability to compete for new business with current and prospective customers.

Privacy concerns and laws or other domestic or foreign regulations may reduce the effectiveness of our services and harm our business.

Users can use our services to store identifying information or information that otherwise is considered personal information. Federal, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and other individuals. Foreign data protection, privacy, consumer protection and other laws and regulations, particularly in Europe, are often more restrictive than those in the United States. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to our business or the businesses of our customers may limit the use and adoption of our services and reduce overall demand for them.

These U.S. federal and state and foreign laws and regulations, which can be enforced by private parties or governmental entities, are constantly evolving and can be subject to significant change. A number of new laws coming into effect and/or proposals pending before federal, state and foreign legislative and regulatory bodies could affect our business. For example, the European Commission has enacted a general data protection regulation that becomes effective in May 2018 and will supersede current EU data protection legislation, impose more stringent EU data protection requirements, and provide for greater penalties for noncompliance. Additionally, in October 2015, the European Court of Justice invalidated the U.S.-EU Safe Harbor framework that had been in place since 2000, which allowed companies to meet certain European legal requirements for the transfer of personal data from the European Economic Area to the United States. Although U.S. and EU authorities reached a political agreement on February 2, 2016, regarding a new means for legitimizing personal data transfers from the EEA to the United States, the EU-U.S. Privacy Shield, it is facing mounting legal challenges. It is unclear what effect these challenges to the EU-U.S. Privacy Shield will have and whether it will continue to function as an appropriate means for us to legitimize personal data transfers from the EEA to the U.S. Similarly, there have been a number of recent legislative proposals in the United States, at both the federal and state level, that would impose new obligations in areas such as privacy and liability for copyright infringement by third parties. In June 2016, the United Kingdom held a referendum in which voters approved an exit from the European Union, commonly referred to as "Brexit," which could also lead to further legislative and regulatory changes. In March 2017, the United Kingdom began the process to leave the EU by April 2019. In addition, some countries are considering legislation requiring local storage and processing of data that could increase the cost and complexity of delivering our services.

These existing and proposed laws and regulations can be costly to comply with, can delay or impede the development or adoption of our products and services, reduce the overall demand for our products and services, increase our operating costs, require significant management time and attention, slow the pace at which we close (or prevent us from closing) sales transactions. Additionally, any actual or alleged noncompliance with these laws and regulations could result in negative publicity and subject us to investigations, claims or other remedies, including demands that we modify or cease existing business practices, and expose us to significant fines, penalties and other damages.

Furthermore, government agencies may seek to access sensitive information that our users upload to Box, or restrict users' access to Box. Laws and regulations relating to government access and restrictions are evolving, and compliance with such laws and regulations could limit adoption of our services by users and create burdens on our business. Moreover, regulatory investigations into our compliance with privacy-related laws and regulations could increase our costs and divert management attention.

If we are not able to satisfy data protection, security, privacy, and other government- and industry-specific requirements, our growth could be harmed.

There are a number of data protection, security, privacy and other government- and industry-specific requirements, including those that require companies to notify individuals of data security incidents involving certain types of personal data. Security compromises experienced by our competitors, by our customers or by us may lead to public disclosures, which could harm our reputation, erode customer confidence in the effectiveness of our security measures, negatively impact our ability to attract new customers, or cause existing customers to elect not to renew their agreements with us. In addition, some of the industries we serve have industry-specific requirements relating to compliance with certain security and regulatory standards, such as FedRAMP, and those required by the HIPAA, FINRA, and the HITECH Act. As we expand into new verticals and regions, we will likely need to comply with these and other new requirements to compete effectively. If we cannot comply or if we incur a violation in one or more of these requirements, our growth could be adversely impacted, and we could incur significant liability.

Because we recognize revenue from subscriptions for our services over the term of the subscription, downturns or upturns in new business may not be immediately reflected in our operating results.

We generally recognize revenue from customers ratably over the terms of their subscription agreements, which are typically one year, although we also offer our services for terms ranging from one month to three years or more. As a result, most of the revenue we report in each quarter is the result of subscription agreements entered into during prior quarters. Consequently, a decline in new or renewed subscriptions in any one quarter may not be reflected in our revenue results for that quarter. However, any such decline will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our services, and potential changes in our retention rate may not be fully reflected in our operating results until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from additional sales must be recognized over the applicable subscription term.

Our platform must integrate with a variety of operating systems and software applications that are developed by others, and if we are unable to ensure that our solutions interoperate with such systems and applications, our service may become less competitive, and our operating results may be harmed.

We offer our services across a variety of operating systems and through the internet. We are dependent on the interoperability of our platform with third-party mobile devices, tablets, desktop and mobile operating systems, as well as web browsers that we do not control. Any changes in such systems, devices or web browsers that degrade the functionality of our services or give preferential treatment to competitive services could adversely affect usage of our services. In order for us to deliver high quality services, it is important that these services work well with a range of operating systems, networks, devices, web browsers and standards that we do not control. In addition, because a substantial number of our users access our services through mobile devices, we are particularly dependent on the interoperability of our services with mobile devices and operating systems. We may not be successful in developing relationships with key participants in the mobile industry or in developing services that operate effectively with these operating systems, networks, devices, web browsers and standards. In the event that it is difficult for our users to access and use our services, our user growth may be harmed, and our business and operating results could be adversely affected.

We cannot accurately predict new subscription or expansion rates and the impact these rates may have on our future revenue and operating results.

In order for us to improve our operating results and continue to grow our business, it is important that we continue to attract new customers and expand deployment of our solution with existing customers. To the extent we are successful in increasing our customer base, we could incur increased losses because costs associated with new customers are generally incurred up front, while revenue is recognized ratably over the term of our subscription services. Alternatively, to the extent we are unsuccessful in increasing our customer base, we could also incur increased losses as costs associated with marketing programs and new products intended to attract new customers would not be offset by incremental revenue and cash flow. Furthermore, if our customers do not expand their deployment of our services, our revenue may grow more slowly than we expect. All of these factors can negatively impact our future revenue and operating results.

Our quarterly results may fluctuate significantly and may not fully reflect the underlying performance of our business.

Our quarterly operating results, including the levels of our revenue, billings, gross margin, profitability, cash flow, and deferred revenue, may vary significantly in the future, and period-to-period comparisons of our operating results may not be meaningful. Accordingly, the results of any one quarter should not be relied upon as an indication of future performance. Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control and, as a result, may not fully reflect the underlying performance of our business. Fluctuations in quarterly results may negatively impact the value of our Class A common stock. Factors that may cause fluctuations in our quarterly financial results include, but are not limited to:

- our ability to attract new customers;
- our ability to convert users of our limited free version to paying customers;
- the addition or loss of large customers, including through acquisitions or consolidations;
- our retention rate;
- the timing of revenue recognition;
- the impact on billings of shifting our focus to annual (rather than multi-year) payment frequencies from our customers;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations and infrastructure;
- network or service outages, internet disruptions, security breaches or perceived security breaches;
- general economic, industry and market conditions;
- increases or decreases in the number of features or capabilities in our services or pricing changes upon any renewals of customer agreements;
- changes in our go to market strategies and/or pricing policies and/or those of our competitors;
- seasonal variations in our billings results and sales of our services, which have historically been highest in the fourth quarter of our fiscal year;
- the timing and success of new services and service introductions by us and our competitors or any other change in the competitive dynamics of our industry, including consolidation or new entrants among competitors, customers or strategic partners;
- changes in usage or adoption rates of the internet and content management services, including outside the United States;
- the success of our strategic partnerships, including the performance of our resellers; and
- the timing of expenses related to the development or acquisition of technologies or businesses and potential future charges for impairment of goodwill from acquired companies.

One of our marketing strategies is to offer a limited free version of our service, and we may not be able to realize the benefits of this strategy.

We offer a limited version of our service to users free of charge in order to promote additional usage, brand and product awareness, and adoption. Some users never convert from a free version to a paid version of our service. Our marketing strategy also depends in part on persuading users who use the free version of our service to convince decision-makers to purchase and deploy our service within their organizations. To the extent that these users do not become, or do not lead others to become, paying customers, we will not realize the intended benefits of this marketing strategy, and our ability to grow our business and revenue may be harmed.

If we fail to effectively manage our technical operations infrastructure, our customers may experience service outages and delays in the deployment of our services, which may adversely affect our business.

We have experienced significant growth in the number of users and the amount of data that our operations infrastructure supports. We seek to maintain sufficient excess capacity in our operations infrastructure to meet the needs of all of our customers. We also seek to maintain excess capacity to facilitate the rapid provisioning of new customer deployments and the expansion of existing customer deployments. In addition, we need to properly manage our technological operations infrastructure in order to support version control, changes in hardware and software parameters and the evolution of our services. However, the provision of new hosting infrastructure requires significant lead-time. We have experienced, and may in the future experience, website disruptions, outages and other performance problems. These problems may be caused by a variety of factors, including infrastructure changes, changes to our core services architecture, changes to our infrastructure necessitated by legal and compliance requirements governing the storage and transmission of data, human or software errors, viruses, security attacks, fraud, spikes in customer usage, primary and redundant hardware or connectivity failures, dependent data center and other service provider failures and denial of service issues. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time, which may harm our reputation and operating results. Furthermore, if we do not accurately predict our infrastructure requirements, our customers may experience service outages that may subject us to financial penalties, other liabilities and customer losses. If our operations infrastructure fails to keep pace with increased sales, customers may experience delays as we seek to obtain additional capacity, which could adversely affect our reputation and our business.

Interruptions or delays in service from our third-party datacenter hosting facilities and cloud computing and hosting providers could impair the delivery of our services and harm our business.

We currently store and process our customers’ information within three third-party datacenter hosting facilities located in Northern California and in third-party cloud computing and hosting facilities inside and outside of the United States. As part of our current disaster recovery arrangements, our production environment and metadata related to our customers’ data is currently replicated in near real time in a facility located in Las Vegas, Nevada. In addition, all of our customers’ data is typically replicated on a third-party storage platform located inside and outside of the United States. These facilities may be located in areas prone to natural disasters and may experience events such as earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Any damage to, or failure of, our systems generally, or those of the third-party cloud computing and hosting providers, could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rate and our ability to attract new customers. In addition, we may not have adequate insurance coverage to compensate for losses from a major interruption. Our business will also be harmed if our customers and potential customers believe our service is unreliable. Despite precautions taken at these facilities, the occurrence of a natural disaster, an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service or cause us to not comply with certification requirements. Even with the disaster recovery arrangements, we have never performed a full live failover of our services and, in an actual disaster, we could learn our recovery arrangements are not sufficient to address all possible scenarios and our service could be interrupted for a longer period than expected. As we continue to add datacenters, increase our dependence on third-party cloud computing and hosting providers, and add capacity in our existing datacenters, we may move or transfer our data and our customers’ data. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of our service. Further, as we continue to grow and scale our business to meet the needs of our customers, additional burdens may be placed on our hosting and computing facilities. In particular, a rapid expansion of our business could cause our network or systems to fail.

If we overestimate or underestimate our data center capacity requirements, our operating results could be adversely affected.

Only a small percentage of our customers that are organizations currently use our service as a way to organize all of their internal files. In particular, larger organizations and enterprises typically use our service to connect people and their most important information so that they are able to get work done more efficiently. However, over time, we may experience an increase in customers that look to Box as their complete content storage solution. The costs associated with leasing and maintaining our data centers already constitute a significant portion of our capital and operating expenses. We continuously evaluate our short- and long-term data center capacity requirements to ensure adequate capacity for new and existing customers while minimizing unnecessary excess capacity costs. If we overestimate the demand for our cloud content management service and therefore secure excess data center capacity, or if we are unable to meet our contractual minimum commitments, our operating margins could be reduced. If we underestimate our data center capacity requirements, we may not be able to service the expanding needs of new and existing customers and may be required to limit new customer acquisition, which would impair our revenue growth. Furthermore, regardless of our ability to appropriately manage our data center capacity requirements, an increase in the number of organizations, in particular large businesses and enterprises, that use our service as a larger component of their content storage requirements, could result in lower gross and operating margins or otherwise have an adverse impact on our financial condition and operating results.

We depend on highly skilled personnel to grow and operate our business, and if we are unable to hire, retain and motivate our personnel, we may not be able to grow effectively.

Our future success depends upon our continued ability to identify, hire, develop, motivate and retain highly skilled personnel, including senior management, engineers, designers, product managers, sales representatives, and customer support representatives. Our ability to execute efficiently is dependent upon contributions from our employees, including our senior management team and, in particular, Aaron Levie, our co-founder, Chairman and Chief Executive Officer. In addition, occasionally, there may be changes in our senior management team that may be disruptive to our business. For example, Stephanie Carullo recently joined us as our Chief Operating Officer. If our senior management team, including any new hires that we may make, fails to work together effectively and to execute on our plans and strategies on a timely basis, our business could be harmed.

Our growth strategy also depends on our ability to expand our organization with highly skilled personnel. Identifying, recruiting, training and integrating qualified individuals will require significant time, expense and attention. In addition to hiring new employees, we must continue to focus on retaining our best employees. Many of our employees may be able to receive significant proceeds from sales of our equity in the public markets, which may reduce their motivation to continue to work for us. Competition for highly skilled personnel is intense, particularly in the San Francisco Bay Area, where our headquarters is located. We may need to invest significant amounts of cash and equity to attract and retain new employees, and we may never realize returns on these investments. Changes to U.S. immigration and work authorization laws and regulations can be significantly affected by political forces and levels of economic activity. Our international expansion and our business in general may be materially adversely affected if legislative or administrative changes to immigration or visa laws and regulations impair our hiring processes or projects involving personnel who are not citizens of the country where the work is to be performed.

If we are not able to effectively add and retain employees, our ability to achieve our strategic objectives will be adversely impacted, and our business will be harmed.

We may be sued by third parties for alleged infringement of their proprietary rights.

There is considerable patent and other intellectual property development activity in our industry. Our success depends on our not infringing upon the valid intellectual property rights of others. Our competitors, as well as a number of other entities, including non-practicing entities, and individuals, may own or claim to own intellectual property relating to our industry. For example, in 2016 we settled a lawsuit brought against us by Open Text S.A. that had gone to trial and was pending appeal.

From time to time, certain other third parties have claimed that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. In addition, we cannot assure you that actions by other third parties alleging infringement by us of third-party patents will not be asserted or prosecuted against us. In the future, others may claim that our services and underlying technology infringe or violate their intellectual property rights. However, we may be unaware of the intellectual property rights that others may claim cover some or all of our technology or services. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our services, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers or business partners or pay substantial settlement costs, including royalty payments, in connection with any such claim or litigation and to obtain licenses, modify services, or refund fees, which could be costly. Even if we were to prevail in such a dispute, any litigation regarding our intellectual property could be costly and time consuming and divert the attention of our management and key personnel from our business operations. During the course of any litigation, we may make announcements regarding the results of hearings and motions, and other interim developments. If securities analysts or investors regard these announcements as negative, the market price of our common stock may decline.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success and ability to compete depend in part on our intellectual property. As of October 31, 2017, we had 59 issued patents in the United States, 18 issued patents in Great Britain, 2 issued patents in Canada, and one issued patent in Japan that expire between 2027 and 2035, as well as 97 pending patent applications in the United States and 7 pending patent applications internationally. We primarily rely on copyright, trade secret and trademark laws, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate. We may not be able to obtain any further patents, and our pending applications may not result in the issuance of patents. We may also have to expend significant resources to obtain additional patents as we expand our international operations.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and may result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Accordingly, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. Our failure to secure, protect and enforce our intellectual property rights could materially adversely affect our brand and adversely impact our business.

We rely on third parties for certain financial and operational services essential to our ability to manage our business. A failure or disruption in these services could materially and adversely affect our ability to manage our business effectively.

We rely on third parties for certain essential financial and operational services. Traditionally, the vast majority of these services have been provided by large enterprise software vendors who license their software to customers. However, we receive many of these services on a subscription basis from various software-as-a-service companies that are smaller and have shorter operating histories than traditional software vendors. Moreover, these vendors provide their services to us via a cloud-based model instead of software that is installed on our premises. We depend upon these vendors to provide us with services that are always available and are free of errors or defects that could cause disruptions in our business processes, and any failure by these vendors to do so, or any disruptions in networks or the availability of the internet, would adversely affect our ability to operate and manage our operations.

We are subject to governmental export controls that could impair our ability to compete in international markets due to licensing requirements and economic sanctions programs that subject us to liability if we are not in full compliance with applicable laws.

Certain of our services are subject to export controls, including the U.S. Department of Commerce's Export Administration Regulations and various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. The provision of our products and services must comply with these laws. The U.S. export control laws and U.S. economic sanctions laws include prohibitions on the sale or supply of certain products and services to U.S. embargoed or sanctioned countries, governments, persons and entities and also require authorization for the export of encryption items. In addition, various countries regulate the import of certain encryption technology, including through import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our services or could limit our customers' ability to implement our services in those countries.

Although we take precautions to prevent our services from being provided in violation of such laws, our solutions may have been in the past, and could in the future be, provided inadvertently in violation of such laws, despite the precautions we take. If we fail to comply with these laws, we and our employees could be subject to civil or criminal penalties, including the possible loss of export privileges, monetary penalties, and, in extreme cases, imprisonment of responsible employees for knowing and willful violations of these laws. We may also be adversely affected through penalties, reputational harm, loss of access to certain markets, or otherwise.

Changes in tariffs, sanctions, international treaties, and export/import laws may delay the introduction and sale of our services in international markets, prevent our customers with international operations from deploying our services or, in some cases, prevent the export or import of our services to certain countries, governments, persons or entities altogether. Any change in export or import regulations, economic sanctions or related laws, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our services, or in our decreased ability to export or sell our services to existing or potential customers with international operations. Any decrease in the use of our services or limitation on our ability to export or sell our services would likely adversely affect our business, financial condition and operating results.

We focus on product innovation and user engagement rather than short-term operating results.

We focus heavily on developing and launching new and innovative products and features, as well as on improving the user experience for our services. We also focus on growing the number of users and paying organizations through inside sales, outbound sales, field sales, channel sales and through word-of-mouth by individual users, some of whom use our services at no cost. We prioritize innovation and the experience for users on our platform, as well as the growth of our user base, over short-term operating results. We frequently make product and service decisions that may reduce our short-term operating results if we believe that the decisions are consistent with our goals to improve the user experience and to develop innovative features that we feel our users desire. These decisions may not be consistent with the short-term expectations of investors and may not produce the long-term benefits that we expect.

We provide service level commitments under our subscription agreements. If we fail to meet these contractual commitments, we could be obligated to provide credits or refunds for prepaid amounts related to unused subscription services or face subscription terminations, which could adversely affect our revenue. Furthermore, any failure in our delivery of high-quality customer support services may adversely affect our relationships with our customers and our financial results.

Our subscription agreements with customers provide certain service level commitments. If we are unable to meet the stated service level commitments or suffer periods of downtime that exceed the periods allowed under our customer agreements, we may be obligated to provide these customers with service credits which could significantly impact our revenue in the period in which the downtime occurs and the credits could be due. We could also face subscription terminations, which could significantly impact both our current and future revenue. Any extended service outages could also adversely affect our reputation, which would also impact our future revenue and operating results.

Our customers depend on our customer success organization to resolve technical issues relating to our services. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. Increased customer demand for these services, without corresponding revenue, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on the ease of use of our services, on our reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality customer support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation and our ability to sell our services to existing and prospective customers.

Our services are becoming increasingly mission-critical for our customers and if these services fail to perform properly or if we are unable to scale our services to meet the needs of our customers, our reputation could be adversely affected, our market share could decline and we could be subject to liability claims.

Our core services and our expanded offerings such as Box KeySafe, Box Governance and Box Platform are becoming increasingly mission-critical to our customers' internal and external business operations, as well as their ability to comply with legal requirements, regulations, and standards such as FINRA, HIPAA, and FedRAMP. These services and offerings are inherently complex and may contain material defects or errors. Any defects either in functionality or that cause interruptions in the availability of our services, as well as user error, could result in:

- loss or delayed market acceptance and sales;
- breach of contract or warranty claims;
- issuance of sales credits or refunds for prepaid amounts related to unused subscription services;
- loss of customers;
- diversion of development and customer service resources; and
- harm to our reputation.

The costs incurred in correcting any material defects or errors might be substantial and could adversely affect our operating results. Further, our errors and omissions insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our insurance may not cover all claims made against us and defending a lawsuit, regardless of its merit, could be costly and divert management's attention.

Because of the large amount of data that we collect and manage, it is possible that hardware failures, errors in our systems, user errors, or internet outages could result in data loss or corruption that our customers regard as significant. Furthermore, the availability or performance of our services could be adversely affected by a number of factors, including customers' inability to access the internet, the failure of our network or software systems, security breaches or variability in customer traffic for our services. We may be required to issue credits or refunds for prepaid amounts related to unused services or otherwise be liable to our customers for damages they may incur resulting from some of these events. In addition to potential liability, if we experience interruptions in the availability of our services, our reputation could be adversely affected, which could result in the loss of customers. For example, our customers access our services through their internet service providers. If a service provider fails to provide sufficient capacity to support our services or otherwise experiences service outages, such failure could interrupt our customers' access to our services, adversely affect their perception of our services' reliability and consequently reduce our revenue.

Furthermore, we will need to ensure that our services can scale to meet the needs of our customers, particularly as we continue to focus on larger enterprise customers. If we are not able to provide our services at the scale required by our customers, potential customers may not adopt our solution and existing customers may not renew their agreements with us.

If the prices we charge for our services are unacceptable to our customers, our operating results will be harmed.

As the market for our services matures, or as new or existing competitors introduce new products or services that compete with ours, we may experience pricing pressure and be unable to renew our agreements with existing customers or attract new customers at prices that are consistent with our pricing model and operating budget. If this were to occur, it is possible that we would have to change our pricing model or reduce our prices, which could harm our revenue, gross margin and operating results.

Sales to customers outside the United States or with international operations expose us to risks inherent in international sales.

A key element of our growth strategy is to expand our international operations and develop a worldwide customer base. To date, we have not realized a substantial portion of our revenue from customers outside of the United States. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic, geographic, social, and political risks that are different from those in the United States. Because of our limited experience with international operations and significant differences between international and U.S. markets, our international expansion efforts may not be successful in creating demand for our services outside of the United States or in effectively selling subscriptions to our services in all of the international markets we enter. In addition, we will face specific risks in doing business internationally that could adversely affect our business, including:

- the need to localize and adapt our services for specific countries, including translation into foreign languages and associated expenses;
- laws (and changes to such laws) relating to privacy, data protection and data transfer that, among other things, could require that customer data be stored and processed in a designated territory;
- difficulties in staffing and managing foreign operations;
- different pricing environments, longer sales cycles and longer accounts receivable payment cycles and collections issues;
- new and different sources of competition;
- weaker protection for intellectual property and other legal rights than in the United States and practical difficulties in enforcing intellectual property and other rights outside of the United States;
- laws and business practices favoring local competitors;
- changes in the geopolitical environment and the related impact on the perception of doing business with U.S. based companies;
- compliance challenges related to the complexity of multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;
- adverse tax consequences; and
- unstable regional, economic, social and political conditions.

We sell our services and incur operating expenses in various currencies. Therefore, fluctuations in the value of the U.S. dollar and foreign currencies may impact our operating results when translated into U.S. dollars. We currently manage our exchange rate risk by matching foreign currency assets with payables and by maintaining minimal non-USD cash reserves, but we do not have any other hedging programs in place to limit the risk of exchange rate fluctuation. In the future, however, to the extent our foreign currency exposures become more material, we may elect to deploy normal and customary hedging practices designed to more proactively mitigate such exposure. We cannot be certain such practice will ultimately be available and/or effective at mitigating all foreign currency risk to which we are exposed. If we are unsuccessful in detecting material exposures in a timely manner, our deployed hedging strategies are not effective, or there are no hedging strategies available for certain exposures that are prudent given the risks associated and the potential mitigation of the underlying exposure achieved, our operating results or financial position could be adversely affected in the future.

We are also monitoring developments related to Brexit, which could have significant implications for our business. Brexit could lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, and differing laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Any of these effects of Brexit, among others, could adversely affect our operations in the United Kingdom and our financial results.

Failure to adequately expand our direct sales force and successfully maintain our online sales experience will impede our growth.

We will need to continue to expand and optimize our sales infrastructure in order to grow our customer base and our business. We plan to continue to expand our direct sales force, both domestically and internationally. Identifying and recruiting qualified personnel and training them requires significant time, expense and attention. Our business may be adversely affected if our efforts to expand and train our direct sales force do not generate a corresponding increase in revenue. If we are unable to hire, develop and retain talented sales personnel or if new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, we may not be able to realize the intended benefits of this investment or increase our revenue.

We maintain our Box website to efficiently service our high volume, low dollar customer transactions and certain customer inquiries. Our goal is to continue to evolve this online experience so it effectively serves the increasing and changing needs of our growing customer base. If we are unable to maintain the effectiveness of our online solution to meet the future needs of our online customers, we could see reduced online sales volumes as well as a decrease in our sales efficiency, which could adversely affect our results of operations.

If we are unable to maintain and promote our brand, our business and operating results may be harmed.

We believe that maintaining and promoting our brand is critical to expanding our customer base. Maintaining and promoting our brand will depend largely on our ability to continue to provide useful, reliable and innovative services, which we may not do successfully. We may introduce new features, products, services or terms of service that our customers do not like, which may negatively affect our brand and reputation. Additionally, the actions of third parties may affect our brand and reputation if customers do not have a positive experience using third-party apps or other services that are integrated with Box. Maintaining and enhancing our brand may require us to make substantial investments, and these investments may not achieve the desired goals. If we fail to successfully promote and maintain our brand or if we incur excessive expenses in this effort, our business and operating results could be adversely affected.

Our growth depends in part on the success of our strategic relationships with third parties.

In order to grow our business, we anticipate that we will continue to depend on our relationships with third parties, such as alliance partners, distributors, system integrators and developers. For example, we have entered into agreements with partners such as AT&T, IBM, Microsoft, Amazon and Google to market, resell, integrate with or endorse our services. Identifying partners and resellers, and negotiating and documenting relationships with them, requires significant time and resources. Also, we depend on our ecosystem of system integrators, partners and developers to create applications that will integrate with our platform or permit us to integrate with their product offerings. Our competitors may be effective in providing incentives to third parties to favor their products or services, or to prevent or reduce subscriptions to our services. In some cases, we also compete directly with our partners' product offerings, and if these partners stop reselling or endorsing our services or impede our ability to integrate our services with their products, our business and operating results could be adversely affected. In addition, acquisitions of our partners by our competitors could result in a decrease in the number of current and potential customers, as our partners may no longer facilitate the adoption of our services by potential customers.

If we are unsuccessful in establishing or maintaining our relationships with third parties, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results may suffer. Even if we are successful, we cannot assure you that these relationships will result in increased customer usage of our services or increased revenue.

Furthermore, if our partners and resellers fail to perform as expected, our reputation may be harmed and our business and operating results could be adversely affected.

We depend on our ecosystem of system integrators, partners and developers to create applications that will integrate with our platform or to allow us to integrate with their products.

We depend on our ecosystem of system integrators, partners and developers to create applications that will integrate with our platform and to allow us to integrate with their products. This presents certain risks to our business, including:

- we cannot provide any assurance that these third-party applications and products meet the same quality standards that we apply to our own development efforts, and to the extent that they contain bugs or defects, they may create disruptions in our customers' use of our services or negatively affect our brand;
- we do not currently provide support for software applications developed by our partner ecosystem, and users may be left without support and potentially cease using our services if these system integrators and developers do not provide adequate support for their applications;

- we cannot provide any assurance that we will be able to successfully integrate our services with our partners' products or that our partners will continue to provide us the right to do so; and
- these system integrators, partners and developers may not possess the appropriate intellectual property rights to develop and share their applications.

Many of these risks are not within our control to prevent, and our brand may be damaged if these applications do not perform to our users' satisfaction and that dissatisfaction is attributed to us.

Our company culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and teamwork fostered by our culture, and our business may be harmed.

We believe that our culture has been and will continue to be a key contributor to our success. We expect to continue to hire additional employees as we expand our business. If we do not continue to develop our company culture or maintain our core values as we grow and evolve both in the United States and internationally, we may be unable to foster the innovation, creativity and teamwork we believe we need to support our growth.

Our services contain open source software, and we license some of our software through open source projects, which may pose particular risks to our proprietary software, products, and services in a manner that could have a negative impact on our business.

We use open source software in our services and will use open source software in the future. In addition, we regularly contribute software source code to open source projects under open source licenses or release internal software projects under open source licenses, and anticipate doing so in the future. The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide or distribute our services. Additionally, we may from time to time face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to make our software source code freely available, purchase a costly license or cease offering the implicated services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully. In addition to risks related to license requirements, use of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of software. Additionally, because any software source code we contribute to open source projects is publicly available, our ability to protect our intellectual property rights with respect to such software source code may be limited or lost entirely, and we are unable to prevent our competitors or others from using such contributed software source code. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could have a negative effect on our business, financial condition and operating results.

Future acquisitions and investments could disrupt our business and harm our financial condition and operating results.

Our success will depend, in part, on our ability to expand our services and grow our business in response to changing technologies, customer demands, and competitive pressures. In some circumstances, we may choose to do so through the acquisition of complementary businesses, teams of employees, and technologies rather than through internal development. For example, the team from Wagon Analytics, a data analytics company, joined us in September 2016, and, in 2015, we acquired Verold, a cloud-based 3D model viewer and editor to make it easy for businesses to create engaging and immersive content experiences for the web and mobile. The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete or integrate identified acquisitions. The risks we face in connection with acquisitions include:

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- coordination of research and development and sales and marketing functions;
- retention of key employees from the acquired company;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- integration of the acquired company’s accounting, management information, human resources and other administrative systems;
- the need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked effective controls, procedures and policies;

- liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities;
- achieving the anticipated benefits of the acquisitions within the expected timeframes;
- unanticipated write-offs, expenses, charges or risks associated with the transaction; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders or other third parties.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities, and harm our business generally. Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, incremental operating expenses or the write-off of goodwill, any of which could harm our financial condition or operating results.

We may require additional capital to support our operations or the growth of our business, and we cannot be certain that this capital will be available on reasonable terms when required, or at all.

On occasion, we may need additional financing to operate or grow our business. Our ability to obtain additional financing, if and when required, will depend on investor and lender demand, our operating performance, the condition of the capital markets and other factors. We cannot guarantee that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our Class A common stock, and our existing stockholders may experience dilution. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support the operation or growth of our business could be significantly impaired and our operating results may be harmed.

Financing agreements we are party to or may become party to may contain operating and financial covenants that restrict our business and financing activities.

Our existing credit agreement contains certain operating and financial restrictions and covenants that may restrict our and our subsidiaries’ ability to, among other things, incur indebtedness, grant liens on our assets, make loans investments, consummate certain merger and consolidation transactions, dispose of assets and enter into affiliate transactions, subject in each case to customary exceptions. We are also required to comply with a minimum liquidity covenant and a maximum leverage ratio. These restrictions and covenants, as well as those contained in any future financing agreements that we may enter into, may restrict our ability to finance our operations, engage in, expand or otherwise pursue our business activities and strategies. Our ability to comply with these covenants may be affected by events beyond our control, and breaches of these covenants could result in a default under the credit agreement and any future financial agreements that we may enter into and under other arrangements containing cross-default provisions. If not waived, defaults could cause our outstanding indebtedness under our credit agreement and any future financing agreements that we may enter into to become immediately due and payable, and permit our lenders to terminate their lending commitments and to foreclose upon any collateral securing such indebtedness.

Adverse economic conditions may negatively impact our business.

Our business depends on the overall demand for cloud content management and collaboration and on the economic health of our current and prospective customers. The United States and other key international economies have experienced cyclical downturns from time to time that have resulted in a significant weakening of the economy, more limited availability of credit, a reduction in business confidence and activity, and other difficulties that may affect one or more of the industries to which we sell our services. Uncertainty about economic conditions in the United States, Europe and other key markets for our services could cause customers to delay or reduce their information technology spending. This could result in reductions in sales of our services, longer sales cycles, reductions in subscription duration and value, slower adoption of new technologies and increased price competition. Any of these events would likely have an adverse effect on our business, operating results and financial position. In addition, there can be no assurance that cloud content management and collaboration spending levels will increase following any recovery.

Changes in laws and regulations related to the internet or changes in the internet infrastructure itself, or disruption in access to the internet or critical services on which the internet depends, may diminish the demand for our services, and could have a negative impact on our business.

The future success of our business depends upon the continued use and availability of the internet as a primary medium for commerce, communication and business services. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the internet as a commercial medium. The adoption of any laws or regulations that could adversely affect the growth, popularity or use of the internet, including laws or practices limiting internet neutrality, could decrease the demand for, or the usage of, our products and services, increase our cost of doing business, adversely affect our operating results, and require us to modify our services in order to comply with these changes. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the internet or commerce conducted via the internet. These laws or charges could limit the growth of internet-related commerce or communications generally, or result in reductions in the demand for internet-based services such as ours.

In addition, the use of the internet and, in particular, the cloud as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of internet activity, security, reliability, cost, ease of use, accessibility, and quality of service. The performance of the internet and its acceptance as a business tool have been adversely affected by “viruses,” “worms”, “denial of service attacks” and similar malicious activity. The internet has also experienced a variety of outages, disruptions and other delays as a result of this malicious activity targeted at critical internet infrastructure. These service disruptions could diminish the overall attractiveness to existing and potential customers of services that depend on the internet and could cause demand for our services to suffer.

We employ third-party licensed software for use in or with our services, and the inability to maintain these licenses or errors in the software we license could result in increased costs, or reduced service levels, which would adversely affect our business.

Our services incorporate certain third-party software obtained under licenses from other companies. We anticipate that we will continue to rely on such third-party software and development tools in the future. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, this may not always be the case, or it may be difficult or costly to replace. In addition, integration of the software used in our services with new third-party software may require significant work and require substantial investment of our time and resources. Also, to the extent that our services depend upon the successful operation of third-party software in conjunction with our software, any undetected errors or defects in this third-party software could prevent the deployment or impair the functionality of our services, delay new services introductions, result in a failure of our services, and injure our reputation. Our use of additional or alternative third-party software would require us to enter into additional license agreements with third parties.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act and the listing standards of the New York Stock Exchange (NYSE). We expect that compliance with these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time consuming and costly, and place significant strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures, and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is properly recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. We are also continuing to improve our internal control over financial reporting. We have expended, and anticipate that we will continue to expend, significant resources in order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business, including increased complexity resulting from our international expansion. Further, weaknesses in our disclosure controls or our internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting could also adversely affect the results of management reports and independent registered public accounting firm audits of our internal control over financial reporting that we are required to include in our periodic reports that we file with the SEC. Ineffective disclosure controls and procedures, and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the market price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the NYSE.

Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results, and cause a decline in the market price of our Class A common stock.

Failure to comply with anti-bribery, anti-corruption, and anti-money laundering laws could subject us to penalties and other adverse consequences.

We are subject to the Foreign Corrupt Practices Act, or the FCPA, the U.K. Bribery Act and other anti-corruption, anti-bribery and anti-money laundering laws in various jurisdictions both domestic and abroad. In addition to our own sales force, we also leverage third parties to sell our products and services and conduct our business abroad. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, channel partners, and agents, even if we do not explicitly authorize such activities. While we have policies and procedure to address compliance with such laws, we cannot assure you that our employees and agents will not take actions in violation of our policies or applicable law, for which we may be ultimately held responsible. Any violation of the FCPA or other applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, all of which may have an adverse effect on our reputation, business, operating results and prospects.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of January 31, 2017, we had U.S. federal net operating loss carryforwards of approximately $518.0 million, state net operating loss carryforwards of approximately $498.6 million, and foreign net operating loss carryforwards of approximately $164.8 million. Under Sections 382 and 383 of Internal Revenue Code of 1986, as amended (Code), if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income and taxes may be limited. In general, an “ownership change” occurs if there is a cumulative change in our ownership by “5% shareholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. We have in the past experienced an ownership change which has impacted our ability to fully realize the benefit of these net operating loss carryforwards. If we experience additional ownership changes as a result of future transactions in our stock, then we may be further limited in our ability to use our net operating loss carryforwards and other tax assets to reduce taxes owed on the net taxable income that we earn. Any such limitations on the ability to use our net operating loss carryforwards and other tax assets could adversely impact our business, financial condition and operating results.

Tax laws or regulations could be enacted or changed and existing tax laws or regulations could be applied to us or to our customers in a manner that could increase the costs of our services and adversely impact our business.

The application of federal, state, local and international tax laws to services provided electronically is unclear and continuously evolving. Income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted or amended at any time, possibly with retroactive effect, and could be applied solely or disproportionately to services provided over the internet. These enactments or amendments could adversely affect our sales activity due to the inherent cost increase the taxes would represent and ultimately result in a negative impact on our operating results and cash flows.

In addition, existing tax laws, statutes, rules, regulations or ordinances could be interpreted or applied adversely to us, possibly with retroactive effect, which could require us or our customers to pay additional tax amounts, as well as require us or our customers to pay fines or penalties, as well as interest for past amounts. If we are unsuccessful in collecting such taxes due from our customers, we could be held liable for such costs, thereby adversely impacting our operating results and cash flows.

We may be subject to additional tax liabilities.

We are subject to income, sales, use, value added and other taxes in the United States and other countries in which we conduct business, and such laws and rates vary by jurisdiction. Certain jurisdictions in which we do not collect sales, use, value added or other taxes on our sales may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future. Significant judgment is required in determining our worldwide provision for income taxes. These determinations are highly complex and require detailed analysis of the available information and applicable statutes and regulatory materials. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical tax practices, provisions and accruals. If we receive an adverse ruling as a result of an audit, or we unilaterally determine that we have misinterpreted provisions of the tax regulations to which we are subject, there could be a material effect on our tax provision, net loss or cash flows in the period or periods for which that determination is made. In addition, liabilities associated with taxes are often subject to an extended or indefinite statute of limitations period. Therefore, we may be subject to additional tax liability (including penalties and interest) for a particular year for extended periods of time.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles (GAAP) in the United States are subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. For example, in May 2014, the FASB issued accounting standards update No. 2014-09 (Topic 606), Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP and becomes effective for us beginning the first quarter of fiscal 2019. In addition, were we to change our critical accounting estimates, including the timing of recognition of subscription revenue and other revenue sources, our results of operations could be significantly impacted. These or other changes in accounting principles could adversely affect our financial results. See Part I, Item 1. Financial Statements—Note 1 for information regarding the effect of new accounting pronouncements on our financial statements. Any difficulties in implementing these pronouncements could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

Risks Related to Ownership of Our Class A Common Stock

The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the completion of our initial public offering, including our executive officers, employees and directors and their affiliates, which limits your ability to influence the outcome of important transactions, including a change in control.

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. Stockholders who held shares of our Class B common stock as of October 31, 2017, including our executive officers, employees and directors and their affiliates, collectively held approximately 59.2% of the voting power of our outstanding capital stock as of such date. Because of the ten-to-one voting ratio between our Class B common stock and Class A common stock, the holders of our Class B common stock collectively continue to control a majority of the combined voting power of our capital stock and therefore are able to control all matters submitted to our stockholders for approval so long as the shares of our Class B common stock represent at least 9.1% of all outstanding shares of our Class A common stock and Class B common stock. These holders of our Class B common stock may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentrated control may have the effect of delaying, preventing or deterring a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their capital stock as part of a sale of our company and might ultimately affect the market price of our Class A common stock.

Transfers by holders of our Class B common stock will generally result in those shares converting into shares of our Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning or charitable purposes. The conversion of shares of our Class B common stock into shares of our Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, Messrs. Levie, Levin and Smith retain a significant portion of their holdings of our Class B common stock for an extended period of time, they could control a significant portion of the voting power of our capital stock for the foreseeable future. As board members, Messrs. Levie, Levin and Smith each owe a fiduciary duty to our stockholders and must act in good faith and in a manner they reasonably believe to be in the best interests of our stockholders. As stockholders, Messrs. Levie, Levin (our former Chief Operating Officer) and Smith are entitled to vote their shares in their own interests, which may not always be in the interests of our stockholders generally.

Anti-takeover provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions which could have the effect of rendering more difficult, delaying or preventing an acquisition deemed undesirable by our board of directors. Among other things, our amended and restated certificate of incorporation and amended and restated bylaws include provisions:

- creating a classified board of directors whose members serve staggered three-year terms;
- authorizing "blank check" preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;

- controlling the procedures for the conduct and scheduling of board directors and stockholder meetings; and
- authorizing two classes of common stock, as discussed above.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents certain stockholders holding more than 15% of our outstanding capital stock from engaging in certain business combinations without approval of the holders of at least two-thirds of our outstanding common stock not held by such stockholder.

Any provision of our amended and restated certificate of incorporation, amended and restated bylaws or Delaware law that has the effect of delaying, preventing or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

The market price of our Class A common stock has been and may continue to be volatile, and you could lose all or part of your investment.

The market price of our Class A common stock has been and may continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control and may not be related to our operating performance. For example, from October 31, 2016 through October 31, 2017, the closing price of our Class A common stock ranged from $13.70 per share to $21.95 per share. In addition to the factors discussed in this "Risk Factors" section and elsewhere in this Quarterly Report on Form 10-Q, factors that could cause fluctuations in the market price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally or those in our industry in particular;
- sales of shares of our Class A common stock by us or our stockholders;
- failure of securities analysts to maintain coverage and/or to provide accurate consensus results of us, changes in financial estimates by securities analysts who follow us, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- the public's reaction to our press releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business, our market or our competitors, or if they adversely change their recommendations regarding our Class A common stock, the market price of our Class A common stock and trading volume could decline.

The trading market for our Class A common stock is influenced, to some extent, by the research and reports that securities or industry analysts publish about us, our business, our market or our competitors. If any of the analysts who cover us adversely change their recommendations regarding our Class A common stock or provide more favorable recommendations about our competitors, the market price of our Class A common stock would likely decline. If any of the analysts who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price of our Class A common stock or trading volume to decline.

We do not expect to declare any dividends in the foreseeable future.

We do not anticipate declaring any cash dividends to holders of our Class A common stock in the foreseeable future. Consequently, investors may need to rely on sales of our Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase shares of our Class A common stock.

Items 2, 3, 4 and 5 are not applicable and have been omitted.

Item 6. EXHIBITS

The documents listed in the Exhibit Index of this Quarterly Report on Form 10-Q are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
10.1	Credit Agreement, dated as of November 27, 2017, by and between Box, Inc. and Wells Fargo Bank, National Association.	8-K	001 36805	10.1	November 29, 2017
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Schema Linkbase Document.				
101.DEF	XBRL Taxonomy Definition Linkbase Document.				
101.CAL	XBRL Taxonomy Calculation Linkbase Document.				
101.LAB	XBRL Taxonomy Labels Linkbase Document.				
101.PRE	XBRL Taxonomy Presentation Linkbase Document.				

* The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q, are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Box, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: December 8, 2017

BOX, INC.

By: /s/ Aaron Levie
Aaron Levie
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Dylan Smith
Dylan Smith
Chief Financial Officer
(Principal Financial Officer)